

CIRCULAR

January 30, 1973

1. This Circular Transmits:  
HUD Handbook 4615.1, Section 242, Mortgage insurance for Hospitals.

2. Purpose:  
Except for basic underwriting instructions applicable to all mortgage insurance programs, this handbook contains complete information for mortgagors, sponsors, mortgagees, HUD and HEW field personnel and other interested parties.

3. Applicability:  
This Handbook contains rules, regulations and policy matters in effect as of December 31, 1972.

4. Cancellations:  
The following issuances are cancelled:

Guide - HPMC-FHA G 4447.3 - Mortgage Insurance for Hospitals  
(Section 242)

HPMC-FHA G 4447.3 - Revision to Mortgage Insurance for  
Change 1 Hospitals

Circular - HPMC-FHA 4447.4 - Appraisal Assistance to HEW under  
Section 242 Hospital Program  
dated October 5, 1972

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

4615.1 CHG

**TRANSMITTAL**

**NOTICE**

March 30, 1973

- 
1. This Notice Transmits:  
Change to Handbook 4615.1, Mortgage Insurance for Hospitals.
  2. Explanation of Material Transmitted:  
Appendix 7 to the Hospital Handbook, dated 1/30/73, was  
Inadvertently omitted.
  3. Filing Instructions:

Remove

Page ii, Table of Contents,  
dated 1/73

Insert

Page ii, Table of Contents,  
dated 3/73

Appendix 7, dated 3/73

---

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

H O U S I N G

4615.1 CHG 4

TRANSMITTAL NO.4

December 4, 1978

- 
1. This Transmits:  
Change to Handbook 4615.1, Mortgage Insurance for Hospitals, dated 12/78.
  2. Explanation of Changes:  
Paragraph 3-2h(2) has been changed to effect the changes in the review and monitoring procedures relative to the Field Offices.
  3. Filing Instructions:

Remove: Handbook 4615.1 Pages 3-3 & 3-4 dated 1/73	Insert: Handbook 4615.1 CHG Page 3-3 dated 12/78 Page 3-4 dated 1/73
--	---

---

Assistant Secretary for Housing  
- Federal Housing Commissioner

---

W-1, W-2, W-3, W-3-1, W-4, R-1, R-2, R-3, R-3-1 (HM)  
R-3-2, R-4, R-4-1, R-4-2, R-5, R-5-1, R-5-2

W-1	Assistant Secretaries, Deputy Assistant Secretaries, General Counsel, staff offices reporting to the Secretary
W-2	HQ Office Directors, Special Assistants, those reporting directly to Assistant Secretaries
W-4	Branch Chiefs, multiple copies for staff
R-1	Regional Administrators, Deputy Regional Administrators
R-2	Office Directors, Principal Assistants in Regional Administrators' offices
R-3	Bulk shipment to Regional Offices
R-3-1	Bulk shipment to Regional Offices for selective distribution by program area
R-3-2	Directors, Administrative Services Divisions and Administrative and Management Services Divisions, and Administrative staffs

---

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
H O U S I N G

TRANSMITTAL

4615.1 CHG 5

6/11/80

---

1. This Transmits:

Changes to Handbook 4615.1, Mortgage Insurance for Hospitals,  
dated 1/73.

2. Explanation of Change:

Paragraph 3-4b(1)(b) has been changed to modify disbursement  
procedures under the Section 242 hospital program to allow 100  
percent payoff of completed contracts awarded under construction  
management procedures pursuant to HEW request.

3. Filing Instructions:

Remove:

Handbook 4615.1  
Page 3-7 and 3-8

6/80

dated 1/73

Insert:

Handbook 4615.1 CHG  
Pages 3-7 and 3-7.1 dated

Page 3-8 dated 1/73

---

Assistant Secretary for Housing  
Federal Housing Commissioner

---

U.S. Department of Housing and Urban  
Development

---

Special Attention of:

**Transmittal** Handbook No.: 4615.1 CHG 6

Issued: May 27, 1982

---

1. This Transmits:  
Change to Handbook 4615.1, Mortgage Insurance for Hospitals,  
dated 1/73.
2. Explanation of Material Transmitted:  
Previous paragraph 3-8 re-numbered to 3-9 and a new paragraph 3-8  
added. The new paragraph describes combination financing (tax  
exempt bonds coupled with GNMA mortgage backed securities) and  
incorporates the 1981 statute provision concerning increased  
mortgage amounts.
3. Filing Instructions:

<u>Remove</u>	<u>Insert</u>
Handbook 4615.1	Handbook 4615.1 CHG
Table of Contents Page i, dated 1/73	Table of Contents page i, dated 5/82
Table of Contents, Page ii, dated 3/73	Table of Contents page ii, dated 3/73
Pages 3-13 thru 3-16 dated 1/73	Page 3-13 dated 1/73 Pages 3-14 thru 3-16 dated 5/82

---

General Deputy Assistant Secretary for  
Housing-Deputy Federal Housing Commissioner

---

U.S. Department of Housing and Urban  
Development

---

Special Attention of: **Transmittal** Handbook No.: 4615.1 CHG 7

Issued: 5 /7/84

---

1. This Transmits  
Revision to HUD Handbook 4615.1, Mortgage Insurance for Hospitals  
(Section 242) dated 1/73.
2. Explanation of Material Submitted:  
Paragraph 2-5(c) 2 has been revised to incorporate new bonding  
requirements.
3. Filing Instructions:

<u>Remove</u> Handbook 4615.1 Pages 2-17 and 2-17 A dated 1/77 Page 2-18 dated 1/73	<u>Insert</u> Handbook 4615.1 CHG Pages 2-17 and 2-17A dated 5/84 Page 2-18 dated 1/73
---	--

---

Assistant Secretary tor Housing  
- Federal Housing Commissioner

---

MORTGAGE INSURANCE  
FOR  
HOSPITALS  
(SECTION 242)  
JANUARY 1973  
PROGRAM PARTICIPANTS  
AND  
HUD STAFF  
A HUD HANDBOOK  
HOUSING PRODUCTION AND MORTGAGE CREDIT-FEDERAL HOUSING ADMINISTRATION  
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D. C. 20410  
O-3, R-1, R-2, R-3, R-3-2, R-4,  
R-5, R4FA, W-1, W-2, W-3-1  
(Special Distribution to HEW Regional Offices)  
R-1 Regional Administrators, Deputy Regional Administrators  
R-2 Office Directors, Principal Assistants in Regional  
Administrators' offices  
R-3 Bulk shipment to Regional Offices  
R-3-2 Directors, Administrative Services Divisions and  
Administrative and Management Services Divisions, and  
Administrative staffs  
W-1 Assistant Secretaries, Deputy Assistant Secretaries,  
General Counsel, staff offices reporting to the Secretary  
W-2 HQ Office Directors, Special Assistants,  
those reporting directly to Assistant Secretaries  
W-3-1 Directives Management Officers--Headquarters and Regions,  
library, ACIR (Advisory Commission on Intergovernmental  
Relations)

## TABLE OF CONTENTS

<u>Paragraph</u>		<u>Page</u>
CHAPTER 1. GENERAL FEATURES OF THE HOSPITAL INSURANCE PROGRAM		
1-1.	Introduction	1-1
1-2.	Program Authorization	1-1
1-3.	Eligible Hospitals	1-2
1-4.	Eligible Mortgagors and Sponsors	1-2
1-5.	HUD Supervision	1-3
1-6.	Mortgage Financing	1-4
1-7.	Mortgage Terms	1-5
1-8.	Financing Charges	1-8
1-9.	Physical Guidelines	1-8
1-10.	Evaluation and Processing of Proposals	1-8
CHAPTER 2. HHS (Formerly HEW) PROCESSING AND PROCEDURES		
2-1.	Information to be Furnished	2-1
2-2.	Project Description and Preliminary Information	2-2
2-3.	Revised Application: The Agreement	2-11
2-4.	Revised Application or Equivalent: Completion of Project	2-11
2-5.	Design of the Project and Contract Requirements	2-12
2-6.	Bids, Awards, Contracts, and Modifications	2-18
2-7.	Proprietary Facilities	2-20
2-8.	Construction of the Building	2-20
2-9.	Preconstruction Conference	2-20
2-10.	Allowable and Nonallowable Costs	2-21
2-11.	Labor Standards	2-21
2-12.	Completion Date	2-21
2-13.	Postconstruction Operations	2-22
2-14.	Incomplete Off-Site and On-Site Facilities	2-22
2-15.	Equipment	2-22
CHAPTER 3. HUD PROCESSING AND PROCEDURES		
3-1.	Formal Application	3-1
3-2.	HHS Final Approval Letter	3-2
3-3.	Commitment	3-3
3-4.	Insurance of Advances	3-6
3-5.	Insurance Upon Completion	3-12
3-6.	Operation of Hospital	3-13
3-7.	Correspondence and Documents	3-13
*3-8.	Combination Financing	3-14

Appendices

1. Nonprofit Hospital - Section 242 Application for Project Mortgage Insurance, FHA Form No. 2013-HOSP., and Instructions
  2. Certificate of Need for Hospital and Assurance of Enforcement of State Standards, FHA Form No. 2576 (Hosp.)
  3. Definitions
  4. Allowable and Nonallowable Costs
  5. HEW Regional Offices
  6. State Agencies Administering the Hospital and Medical Facilities Survey and Construction (Hill-Burton) Program
  7. Guide Form - HEW Final Approval Letter
-

## FOREWORD

Except for basic underwriting instructions applicable to all mortgage insurance programs, this handbook contains complete information for mortgagors, sponsors, mortgagees, HUD and HEW field personnel and all other interested parties. The inclusion of HUD processing instructions should be of particular interest to mortgagees.

This handbook details the processing of hospital projects. Proprietary and nonprofit proposals will be processed in a similar manner. Any differences in processing are stated in the text. The handbook is divided into three chapters and an appendix.

Chapter 1. Contains general, nontechnical information which explains the basic program features and requirements and should be of interest to prospective sponsors and mortgagors.

Chapter 2. Contains the HEW requirements and processing procedure of the HEW regional office.

Chapter 3. Contains the technical underwriting procedures used by HUD in its processing.

Appendices include, among other information, a copy of the FHA application used in this program, and a lists of definitions (Appendix 3).

"HUD office" in the handbook refers interchangeably to the HUD Field (Area or Insuring) Office.

"Mortgage Credit Section" refers to the Finance and Mortgage Credit Section in the Area Office and Mortgage Credit Section in the Insuring Office.

"Valuation Section" refers to the Real Estate and Valuation Section in the Area Office and the Valuation Section in the Insuring Office.

There is a supplement to this handbook (Reference (1) of the Foreword) which is of interest primarily to HUD and HEW personnel and should also be of interest to mortgagees. The supplement contains additional forms and instructions for processing Section 242 projects.

References:

- (1) (4615.2)\* - Supplement to Mortgage Insurance for  
Hospitals Handbook
- (2) 4435.1 - Construction to Final Closing for  
Project Mortgage Insurance

\* The information in parentheses indicates the location of the  
referenced  
material in the new classification system.

Cancellations: This Handbook cancels HPMC-FHA G 4447.3, HPMC-FHA G  
4447.3 Change 1 and HPMC-FHA Circular 4447.4.

CHAPTER 1. GENERAL FEATURES OF THE  
HOSPITAL INSURANCE PROGRAM

- 1-1. INTRODUCTION. There are serious demands for increasing Utilization of modern health facilities today. Many existing hospitals are in need of extensive expansion and modernization. Although much nonprofit hospital construction has been made possible with direct Federal assistance under the Hill-Burton Act, and many nonprofit groups have been able to assist hospitals through fund raising drives and similar efforts, these sources have been inadequate to fund all the nonprofit facilities needed. One source that had not been utilized to its full potential for both nonprofit or proprietary facilities, until enactment of the insured mortgage program for hospitals, was long-term financing at reasonable terms.
- a. This program provides mortgage insurance for loans to Qualified applicants to build new facilities or modernize existing ones, and can also be used in nonprofit proposals to supplement Hill-Burton grants or HEW guaranteed loans for the same purpose.
  - b. Inquires concerning HUD mortgage insurance for hospitals may be made to the Director of the HUD Office; the regional office of the Department of Health, Education and Welfare, or the State Hill-Burton Agency, in the area where the proposed project is to be located (see list of HEW regional and State Agency offices in Appendices 5 and 6. Advice on professional and technical matters relating to hospital plans and proposals may be obtained by writing or visiting the HEW Regional Office.
- 1-2. PROGRAM AUTHORIZATION. The Housing and Urban Development Act of 1968 added a new Section 242 to Title II of the National Housing Act, which authorizes the Secretary of HUD to insure mortgage loans financing the construction or rehabilitation of, and the purchase of major movable equipment for, nonprofit hospital facilities. The Housing and Urban Development Act of 1970 amended Section 242 to allow proprietary facilities. The Secretary has delegated to the Assistant Secretary for Housing Production and Mortgage Credit-Federal Housing Commissioner (HPMC-HUD-FHA) the authority to administer the program. By formal agreement between the Secretaries of HUD and HEW, the responsibility for making a determination as to the feasibility of a proposal, as well as inspections during the construction of a facility, has been delegated to HEW, which is acting as an agent of HUD.

1-3. ELIGIBLE HOSPITALS.

- a. Type of hospital. Under this program hospital refers to a facility:
- (1) Which provides community service for inpatient medical care of the sick or injured;
  - (2) Which has not more than 50 per centum of the total patient days during any year assignable to the categories of chronic convalescent and rest, drug and alcoholic, epileptic, mentally deficient, mental, nervous and mental, and tuberculosis, and;
  - (3) Which is a proprietary facility, or facility of a private nonprofit corporation or association, licensed or regulated by the State (or if there is no State law providing for such licensing or regulation by the State, by the municipality or other political subdivision in which the facility is located).
- b. Certificate of Need. The law does not permit the Assistant Secretary-FHA Commissioner to insure a mortgage under this program unless he has received from the State agency (Appendix 6) designated in accordance with Section 604(a)(1) of the Public Health Act for the State in which the hospital is to be located a Certificate of Need, FHA Form 2576 (Hospital) (Appendix 2).
- b. Group practice. The law provides that encouragement shall be given to group practice sponsors seeking mortgage insurance for hospitals as defined in a. above.

1-4. ELIGIBLE MORTGAGORS AND SPONSORS. The mortgagor (borrower) is the organization or entity that owns the property which is the Security for the mortgage insured by HUD. The sponsor is the organization or entity that initiates and promotes the development of the facility. The sponsor, if it meets the nonprofit requirements, may qualify as the mortgagor, or it may set up a separate entity for the purpose of qualifying as a mortgagor.

- a. Types of mortgagors. Two types of mortgagors may qualify for a HUD insured mortgage under the program.

- (1) A proprietary (profit-motivated) mortgagor may be a corporation, partnership, trust, individual, or any other qualified legal entity. It is expected that such hospital will have a board of directors or trustees to include community and consumer participation.
- (2) A nonprofit mortgagor must be a nonprofit corporation or association. The law specifically requires that no part of the net earnings of the mortgagor shall inure to the benefit of any private shareholder or individual. The sponsor, if different from the mortgagor, must also be a bona fide nonprofit entity which meets the same test.

b. Continuity of Mortgagor. The mortgagor must show that it has the continuity of organization needed for this long term mortgage program. For new organizations, or those whose continuity is necessarily dependent upon an individual or individuals, broad community participation will be required. A proposal in which the mortgagor is controlled in any manner by the professionals practicing in the hospital will not be eligible.

1-5. HUD SUPERVISION. The operation of the project will be supervised by HUD through a regulatory agreement. A complete annual financial statement will be required to be submitted to HEW at the end of each fiscal year. Mortgagors owning other health facilities in addition to the hospital, with a central purchasing system, may prorate expenses for materials, supplies, salaries, etc. Although no specific form of accounts is required, it is suggested that the Chart of Accounts for Hospitals, which is published by the American Hospital Association, be used as a guide.

a. The mortgagor will be required to operate the project as a hospital as long as the property continues to be subject to a HUD insured mortgage. The mortgage shall not be prepaid in full prior to its maturity except under such terms and conditions as may be approved by HUD. In granting approval for such prepayment, HUD may require assurances from the mortgagor of continued operation of the project as a hospital for a specified period of time.

- b. The regulatory agreement with the mortgagor (FHA Form 2466 or 2466GP) requires that neither the use of the property nor the services of the professional or other personnel shall be denied to anyone on the basis of race, color, creed or national origin. The mortgagor will be required to comply with local laws and ordinances prohibiting discrimination.
  - c. Operating fund. The mortgagor must be financially able to meet the expenses of the project for such period as HEW estimates is necessary to establish a self sustaining operation. HEW may require the establishment of an operating fund to meet an anticipated operating deficit. The need for, and size of the fund will be determined by HEW based on the specific proposal being considered. HEW will indicate to HUD the amount of the operating fund (if any) under the remarks section of the HEW Final Approval Letter.
  - d. Leasing of a hospital in its entirety is not contemplated under this program. Any proposal in which leasing of the entire facility is a factor will be handled on a case-by-case basis. Any leasing or contractual arrangements must be stated in detail and approved prior to filing application for mortgage insurance. Leasing of a nonprofit facility to a proprietary entity will not be considered.
- 1-6. MORTGAGE FINANCING. The sponsor is responsible for locating a source for the required mortgage funds (both for construction financing and permanent investment). It is important that tentative arrangements for financing be made during the early development of the proposal in order to avoid the unnecessary expenditure of time, effort and money in the event mortgage funds are not available. It is suggested that, immediately upon a decision being made to use this program, the sponsor communicate with the HUD office for a list of approved mortgagees (lenders).
- a. Although HUD may not recommend a specific source of mortgage funds, its local field offices may assist sponsors to the extent of providing lists of HUD-FHA approved mortgagees (lenders) in the area who make loans of the type and amount desired. In the nation there are approximately 25,000 financial institutions, including branch offices, approved by HUD-FHA for the insurance of loans under its various programs. These approved lenders include national banks, state banks, mortgage companies, insurance companies, savings and loan associations, and savings banks.

- b. FNMA participation. Permanent loans under this program are eligible for purchase by the Federal National Mortgage Association under its regular secondary market operations For multifamily housing mortgages. Upon execution of a Commitment for advances by HUD, FNMA will consider participating up to 95% in construction advances as they are insured by HUD.

FNMA will also enter into a preliminary commitment of funds contract upon issuance of a feasibility letter from HUD. Therefore, upon being advised by the HEW regional office of its approval of the sponsor's initial application to HEW, and after receipt of the initial FHA application, Form 2013-HOSP, with fee, (plus for proprietary facilities Previous Participation Certificate, FHA Form 2530) the HUD office will issue a Feasibility letter to the sponsor, using the following format:

"We have been advised by the HEW regional office in (city and state) of its approval of your initial application for an insured mortgage under Section 242 of the National Housing Act. We have also received a formal application, FHA Form No. 2013-HOSP from(mortgagee)in the amount of \$ \_\_\_\_\_, with the required fee.

By agreement between HEW and HUD, the responsibility for the processing of Section 242 applications has been delegated to HEW. Based on such approval, this proposal is considered feasible subject to HEW's review and approval of the revised HEW application."

- c. The sponsor will be dealing directly with the State Hill-Burton agency as well as the HEW regional office during the processing of a proposal. However, the formal application for a HUD-FHA firm commitment must be submitted to the HUD office through the HUD-FHA approved lender who has agreed to make the loan.

- 1-7. MORTGAGE TERMS. The maximum mortgage amount is governed by a dollar limitation of \$50,000,000, and a loan limitation of 90% of the estimated replacement cost of the property, including major movable equipment, covered by the mortgage.

- (1-7) a. Special limitations, in addition to those prescribed in the previous paragraph, are imposed when the project involves "rehabilitation," as defined in b. below. The character of the limitations depends upon whether the property is already owned by the sponsor or mortgagor or is to be purchased or otherwise acquired. (See 3-3.c.)
- b. Rehabilitation involves alteration, repair, modernization, or addition to an existing hospital (or to an existing structure by an established hospital) including appropriate alteration and landscaping of the grounds. Rehabilitation may also include the installation of technical or professional equipment to be used in the hospital. However, the cost of rehabilitating the existing building and grounds (together with the cost of purchasing and installing technical equipment) must represent at least 20% of the total mortgage amount, with at least one half of such 20% applied to the rehabilitation of the buildings and grounds. No more than one half of such 20% may be applied to equipment for an existing building.
- c. Joint Hill-Burton, HUD insured, and HEW guaranteed financing is eligible for nonprofit mortgagors under this program under the following conditions:
- (1) If a Hill-Burton grant and a HUD insured loan are involved, the total of the grant and loan cannot exceed the total cost of the project and the required major non-realty (movable) equipment includable under the mortgage and grant.
- (2) If an HEW guaranteed loan is involved, it may be used In conjunction with a HUD insured loan. The total HUD-FHA insured mortgage and the HEW guaranteed loan cannot exceed 90% of the estimated replacement cost of the property including major movable equipment.
- d. The maximum mortgage term is 25 years from the date of beginning of amortization. Payments will be on the level annuity monthly plan. Approved terms for monthly payments, including curtail rates for reducing the principal amount of the mortgage, will be prescribed by HUD.

- (1-7) e. The mortgage may bear interest at a rate not in excess of the maximum rate prescribed by FHA regulations.
- f. Mortgage insurance premium. The mortgagor's monthly Mortgage payments include an amount equal to one-twelfth of the annual mortgage insurance premium which the mortgagee is required to pay HUD-FHA. (Note: During the construction period, on projects involving insurance of advances, the annual premium is approximately one percent of the average outstanding principal obligation of the mortgage).
- g. In addition to making monthly payments covering the principal, interest and mortgage insurance premium due under the mortgage, the mortgagor will be required to include in the monthly payment an amount sufficient to provide for the payment of taxes (if any), property insurance and any special assessments and ground rents. Proprietary facilities in addition will be required to make deposits to a replacement reserve fund for the replacement of equipment
- h. The HUD insured mortgage must be the first mortgage on the hospital to be constructed or rehabilitated. Generally, this will be the only mortgage on the property.
- (1) In certain instances, secondary financing is allowable for nonprofit facilities as follows:
- (a) If an HEW guaranteed loan is involved;
- (b) If second mortgage money is supplied at a lesser rate than the HUD-FHA insured mortgage, for example, by a State or municipal body.
- (2) In either instance, HEW must give its prior approval to the second mortgage, after making a determination that income will be available to meet required payments on both the first and second mortgages. The mortgagee must also give its approval to the second mortgage, as required by the mortgage document. The HUD mortgage must include a mutual default provision requiring that a default on the second mortgage constitutes a default on the first mortgage.
- i. Initial processing of an application will proceed only when accompanied by evidence of site acquisition in the form of fee simple title, an option to purchase, contract of sale, a 99-year renewable lease, or a lease which has at least 50 years to run from the date of the insured mortgage. The lease must include the provisions of FHA Form No. 2070, Lease Addendum.
-

- 1-8. FINANCING CHARGES. The mortgagee is permitted to obtain reimbursement from the mortgagor for the application, commitment and inspection fees paid to HUD-FHA. In addition, it may collect from the mortgagor an initial service charge not to exceed two percent of the principal amount of the mortgage, as reimbursement for the cost of closing the loan transaction. This initial service charge is included in computing the total Estimated replacement cost. Also included in computing total Estimated replacement cost is the one and one half percent FNMA Commitment and purchase and marketing fee. If the permanent lender is other than FNMA, the one and one half percent is permissible. Financing charges approved by HUD as reasonable, over and above the two percent service charge and one and one half FNMA fee, may be collected from the mortgagor and either turned over to the permanent lender or retained by the construction lender, but may not be included in computing estimated replacement cost.
- 1-9. PHYSICAL GUIDELINES. The guidelines published by HEW in Public Health Service Publication No. 930-A-7, General Standards of Construction and Equipment for Hospital and Medical Facilities, and in Public Health Service Publication No. 930-D-4, Hospital and Nursing Home Equipment Planning Guide, will be used in this program.
- 1-10. EVALUATION AND PROCESSING OF PROPOSALS. The sponsor will be dealing exclusively with the HEW regional office during the feasibility processing of a proposal. Therefore, the initial contact should be with the HEW regional office. If the initial contact is made with the HUD office, the sponsor will be furnished with a copy of this handbook and referred to the HEW regional office. Because of the divided responsibilities in this program, a liaison man will be designated by both the HUD and HEW regional offices to coordinate proposals in process, initial and final closings, etc.

On proprietary facilities the sponsors initial contact should be with the HUD Field office as the Previous Participation procedure, FHA Form 2530 is required. Proprietary sponsors prior to filing the HEW application will submit a completed FHA Form 2530 to the local HUD office with a covering letter stating that the proposal is a proprietary hospital. Upon clearance of the sponsors the HUD office will notify the sponsor that he may file the initial application with the HEW Regional Office.

---

## CHAPTER 2. HEW PROCESSING AND PROCEDURES

- 2-1. INFORMATION TO BE FURNISHED. An applicant for Federal assistance under this program will be required to furnish specific information about the proposed project so that eligibility and conformity with requirements on the program can be determined. This information will be furnished on an HEW application form hereinafter discussed. In addition, there are certain required assurances which the applicant must agree to carry out. Processing procedures will differ somewhat on nonprofit facilities, depending on whether the project is to be constructed with Federal assistance under both the HUD mortgage insurance program and the Hospital and Medical Facilities Construction (Hill-Burton) Programs or whether it will be constructed without Hill-Burton assistance.
- a. When the project is to be constructed without Hill-Burton assistance, the applicant should submit the initial HEW application to the State Hill-Burton agency which will issue the certificate of need for the facility. All revisions of the HEW application will be submitted directly to the HEW regional office serving the applicant's area. Simultaneously with the submission of each HEW application to the HEW regional office, a copy will be sent to the State Agency by the applicant. (If the project is a proprietary facility, Previous Participation Clearance, FHA Form 2530 must be obtained from the HUD office prior to submitting HEW initial application.)
  - b. When a nonprofit project is to receive Federal assistance under the Hill-Burton Program, the applicant should proceed in accordance with Hill-Burton program instructions, using the appropriate forms and submitting all procedures through the State Agency (Appendix 6).
    - (1) Application form and guide material. The Project Construction Application (HEW 537) with instructions is available from the HEW Regional Office or the State Hill-Burton agency. The Public Health Service publishes General Standards of Construction and Equipment for Hospital and Medical Facilities (PHS Publication No. 930-A-7) and other guide material for planning hospitals and other health facilities. The HEW Regional Office or the State Agency will provide copies of this material to assist in planning and constructing projects.

- (2) Application format. The application is divided into an initial application and necessary revisions. Final approval of an application is given only after application and the plans and specifications have been submitted and approved.

- 2-2. PROJECT DESCRIPTION AND PRELIMINARY INFORMATION. The primary purpose of the initial application is to elicit information to determine the eligibility of the proposed project. Before a project can be approved by HEW, a narrative description of the program must be developed as an integral portion of the application.

The program narrative should comprise a general or brief review of the scope of services, as outlined below. It should be a summary of the facility's program, and as such should be as brief as possible, yet sufficiently detailed to adequately describe the program of services. Details of the site, to include its location, size and boundaries should be included. The program narrative should also prove useful to the project sponsor in that it can, through a step-by-step expansion, provide a basis for an organizational plan for the administration of the program of services, as well as provide valuable assistance and guidance to the project architects and engineers in the development of design drawings and specifications.

Since this program narrative guide was developed to assist in the preparation of a narrative for all types of health care services, and not restricted to one type of health care facility, it is not expected that each proposed project contain all of the health services listed; however, where appropriate and feasible, the project sponsor should consider ways by which needed community health services, when not a part of a proposed project, can in fact be provided, such as through formal patient transfer agreements, or through service sharing agreements with other facilities.

- a. Applicant Eligibility and Need for Facility.

- (1) Describe the method for determining the need in the community for the facilities and services to be provided. Include information about the results of any local studies which reflect a need for such facilities and services.

- (2-2)        (2) Describe the geographic and/or political subdivisions now being served by the facility, and describe, as measured in travel time, the accessibility of the facility to the population.
- (3) Describe the efforts that have been made or are being made in areawide or interfacility planning to meet the needs of the community in the most effective and economical manner.

b. Description of Programs to be Conducted in Facility.

- (1) Describe the broad categories of health services to be offered. Where applicable include services such as medical, surgical, obstetrics, pediatrics, psychiatrics, long-term care or extended care and also include:
- (a) Overall bed complement.
  - (b) Bed distribution by services (e.g., medical, surgical, intensive care, psychiatric, long-term or extended care).
  - (c) Allocation of beds by nursing units.
  - (d) Allocation of beds by patient rooms.
  - (e) The number of operating rooms, obstetrical Delivery rooms, labor rooms, nurseries, etc.
  - (f) Outpatient and emergency services. Is a formally organized outpatient service planned? If so, will the outpatient service be a satellite, noncontiguous unit organized into clinics? If so, give the types of clinics proposed.
  - (g) Other diagnostic and treatment services -- e.g., dental, radiology, laboratory, physical medicine and rehabilitation, hemodialysis, cardiopulmonary function, etc.
  - (h) Describe the social service and home care programs; the extent of the services to be provided and facilities required.

- (2-2) (i) Describe any preventive medicine programs, such as prenatal and well-baby clinics, TB detection, nutrition and obesity clinics, and inoculation programs.
- (2) Educational and Research Programs.
- (a) What programs are proposed for clinical and basic biomedical research, and research in medical care administration?
- (b) Describe any formal educational programs for nurses, interns, residents, technicians, therapists, and others. State briefly the scope of the programs and levels of preparation by professional category. (1) Indicate services and facilities -- e.g., teaching spaces, laboratories, offices, library, student living quarters, recreational facilities and supporting areas. (2) Give the approximate size of the student body and faculty.
- (c) Describe the health education programs for patients, community and personnel.
- (3) Identify all Individual Departmental Functions (as physical and organizational units) -- e.g., administration, medical records, central services, dietary, pharmacy, general stores, housekeeping. These may be grouped by functional similarities suitable to organizational structure and administrative prerogatives, such as diagnostic and treatment services, service departments, nursing services. (Indicate if any of these will receive unusual emphasis or otherwise be specially designed as a result of sharing services with other facilities, or modifications of program through cooperative agreements.)
- (4) Staffing Requirements.
- (a) Show the existing and proposed staffing by Position and number of employees for each service.
- (b) Give the approximate number of physicians who will serve on the medical staff indicating general or special practice.

- (2-2) (5) Working Relationships with Other Facilities.
- (a) Describe in detail existing and proposed plans for coordinating services with other facilities; and any existing or proposed formal working agreements with health or other organizations providing services to the general public.
  - (b) Include a description of any plans to share Services or facilities with other institutions. (Existing and proposed referral services should also be included.)
- (6) Physical and Environmental Requirements.
- (a) Interdepartmental relationships.
    - 1 Describe the functional relations between services and program areas, and the general locations of these for maximum effectiveness of interdependent activities.
    - 2 Give the approximate gross square footage of the proposed project and of each functional area, and the total for each department or major division of the facility.
    - 3 Determine the rooms and separate work areas by type and number necessary for the performance of programmed functions.
  - (b) Describe the transportation and distribution systems for moving people, equipment, food, records and waste.
  - (c) Describe the electrical and communication systems to be installed -- e.g., nurse call, paging, central dictation, radio and television, and emergency power.
- c. Initial Application should also Indicate the Proposed  
Financing of the applicant's share of the cost of a project, and the financial responsibility of the applicant for maintenance and operation of the project for a two-year period following

- (2-2) construction, establish the proprietary or nonprofit status of the applicant's project, and present a preliminary estimate of the number of square feet in the project, the cost per square foot, the cost of equipment and other estimated costs. Schematic drawings of the proposed project should also be included. The financial capability of the applicant (mortgagor) to amortize a HUD-FHA insured mortgage will be determined for each project by the HEW Regional Office, after review of analyses and recommendations submitted by the State Hill-Burton Agency and supporting documents which will be submitted with the initial Application. These supporting documents will include the following data and other information:
-

1(a). Provide the following data for the past three years:

(1) <u>Accommodation</u>	<u>No. of Beds</u>			<u>Admissions or Discharges</u>			<u>Total Pt. Days</u>		
	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.
Private	_____	_____	_____	_____	_____	_____	_____	_____	_____
Semi-Private	_____	_____	_____	_____	_____	_____	_____	_____	_____
Ward	_____	_____	_____	_____	_____	_____	_____	_____	_____
TOTALS	_____	_____	_____	_____	_____	_____	_____	_____	_____

(1) <u>Accommodation</u>	<u>No. of Beds</u>			<u>% Occupancy</u>		
	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.
Private	_____	_____	_____	_____	_____	_____
Semi-Private	_____	_____	_____	_____	_____	_____
Ward	_____	_____	_____	_____	_____	_____
TOTALS	_____	_____	_____	_____	_____	_____

(2) <u>Clinical Serv.</u>	<u>No. of Beds</u>			<u>Admissions or Discharges</u>			<u>Total Pt. Days</u>		
	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.
Medicine & Surgery	_____	_____	_____	_____	_____	_____	_____	_____	_____
Obstetrics	_____	_____	_____	_____	_____	_____	_____	_____	_____
Pediatrics	_____	_____	_____	_____	_____	_____	_____	_____	_____
Psychiatry	_____	_____	_____	_____	_____	_____	_____	_____	_____
Other (specify)	_____	_____	_____	_____	_____	_____	_____	_____	_____
TOTALS	_____	_____	_____	_____	_____	_____	_____	_____	_____

(2) <u>Clinical Serv.</u>	<u>No. of Beds</u>			<u>% Occupancy</u>		
	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.
Medicine & Surgery	_____	_____	_____	_____	_____	_____
Obstetrics	_____	_____	_____	_____	_____	_____
Pediatrics	_____	_____	_____	_____	_____	_____
Psychiatry	_____	_____	_____	_____	_____	_____
Other (specify)	_____	_____	_____	_____	_____	_____
TOTALS	_____	_____	_____	_____	_____	_____

1(a). Provide the following data for the past three years:

(3) <u>Source of Payment</u>	<u>% of Gross Revenue</u>		
	Yr.	Yr.	Yr.
Blue Cross	_____	_____	_____
Other Insurance	_____	_____	_____
Medicare	_____	_____	_____
Medicaid	_____	_____	_____
Self-Pay	_____	_____	_____
Free Care	_____	_____	_____
Other (specify)	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
TOTALS	<u>100</u>	<u>100</u>	<u>100</u>

Note: In (3) above, exclude bad debts;  
include both inpatients and outpatients

---

4615.1

---

(4) Revenue and Units of Service by Income Category (Use American Hospital Association (HAS) Definitions.)

	Year_____		Year_____	
<u>Service</u> (Use Gross Revenues)	<u>Units</u>	<u>\$</u>	<u>Units</u>	<u>\$</u>
Daily Patient Services	_____	_____	_____	_____
Delivery & Labor Rooms	_____	_____	_____	_____
Operating Rooms	_____	_____	_____	_____
Central Services & Supply	_____	_____	_____	_____
Laboratory	_____	_____	_____	_____
Blood Bank	_____	_____	_____	_____
Radiology	_____	_____	_____	_____
Pharmacy	_____	_____	_____	_____
Inhalation Therapy	_____	_____	_____	_____
Physical Therapy	_____	_____	_____	_____
Occupational Therapy	_____	_____	_____	_____
Outpatient Clinics	_____	_____	_____	_____
Emergency Department	_____	_____	_____	_____
Cafeteria	_____	_____	_____	_____
Miscellaneous	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
TOTALS		_____		_____
Less Discounts, Allowances, Bad Debts, Etc.		_____		_____
Net Revenues		_____		_____

- (5) SSA-1562 "Reimbursable Cost on the Combination Method"  
(6) SSA-1563 "Hospital Statement of Reimbursable Cost"  
(7) Audits performed by Blue Cross  
(8) Annual financial and statistical reports submitted to Blue Cross and Medicaid  
(9) Audited annual financial statements

1(b). Provide the following:

- (1) Schedule of current charges
- (2) Monthly financial and statistical reports  
Submitted to the facility board during the  
current year.

(4) Revenue and Units of Service by Income Category (Use American Hospital Association (HAS) Definitions.)

	Year_____	
<u>Service</u> (Use Gross Revenues)	<u>Units</u>	<u>\$</u>
Daily Patient Services	_____	_____
Delivery & Labor Rooms	_____	_____
Operating Rooms	_____	_____
Central Services & Supply	_____	_____
Laboratory	_____	_____
Blood Bank	_____	_____
Radiology	_____	_____
Pharmacy	_____	_____
Inhalation Therapy	_____	_____
Physical Therapy	_____	_____
Occupational Therapy	_____	_____
Outpatient Clinics	_____	_____
Emergency Department	_____	_____
Cafeteria	_____	_____
Miscellaneous	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
TOTALS		_____
Less Discounts, Allowances, Bad Debts, Etc.		_____
Net Revenues		_____

(5) SSA-1562 "Reimbursable Cost on the Combination Method"

(6) SSA-1563 "Hospital Statement of Reimbursable Cost"

(7) Audits performed by Blue Cross

(8) Annual financial and statistical reports submitted to Blue Cross and Medicaid

(9) Audited annual financial statements

1(b). Provide the following:

- (1) Schedule of current charges
- (2) Monthly financial and statistical reports  
Submitted to the facility board during the  
current year.

1(c). Provide the following data projected for the first two years of operation:

(1) Budget to include:

a. Data called for in A (1) through (4) above.

b. For each source of inpatient payment, specify:

<u>Source of Payment</u>	<u>Number of Patient Days</u>	<u>Average Daily Charge</u>	<u>Total Gross Charges</u>	<u>% of Gross Revenue</u>	<u>Total Net Patient Income</u>
Blue Cross	_____	\$_____	\$_____	_____	\$_____
Other Insurance	_____	_____	_____	_____	_____
Medicare	_____	_____	_____	_____	_____
Medicaid	_____	_____	_____	_____	_____
Self-Pay	_____	_____	_____	_____	_____
Free Care	_____	_____	_____	_____	_____
Other (specify)	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
TOTALS	_____	_____	\$_____	<u>100</u>	\$_____

<u>Source of Payment</u>	<u>Number of Patient Days</u>	<u>Total Gross Charges</u>	<u>Total Net Patient Income</u>	<u>Net Average Per Diem</u>
Blue Cross	_____	\$_____	\$_____	\$_____
Other Insurance	_____	_____	_____	_____
Medicare	_____	_____	_____	_____
Medicaid	_____	_____	_____	_____
Self-Pay	_____	_____	_____	_____
Free Care	_____	_____	_____	_____
Other (specify)	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
TOTALS	_____	\$_____	\$_____	_____

- c. Other projected income such as endowments, fund drives, etc.
- d. Total operating budgets, with individual departmental expenses to include salaries and wages, supplies and other expenses. Salary and wage detail should show the following departmentally: position(s), unit salary, number of staff in category, and total salary and wages.
- e. Provide detailed proposals supporting proposed expenses for major contractual services. (e.g., laundry, food service, housekeeping, etc.)
- f. Debt service per patient day.
- g. Statement of existing indebtedness.
- h. Where applicable, such as in the case of for-profit hospitals, provision for real estate, income and other taxes.
- i. Reserve for replacement (proprietary only).

Note: Provide statements setting forth basis for assumptions and rationale for projections.

1(d). Attach the following:

- (1) Facility organization chart.
  - (2) Listing of board of directors and committees, to include credentials and qualifications of members.
  - (3) Composition of planning and development committee, to include credentials and qualifications of members.
  - (4) Amortization schedule showing principal and interest payments for mortgage period at the projected interest rate.
  - (5) Tables showing projected annual depreciation for buildings, fixed equipment and movable equipment. Indicate projections for purchase of equipment.
-

- (2-2) d. The Project Construction Application (HEW 537) includes certain assurances to be signed by the applicant.

THE APPLICANT SHOULD READ CAREFULLY ALL THE REQUIRED ASSURANCES IN THE APPLICATION BEFORE SIGNING.

- e. Determination of tentative amount of maximum insurable mortgage. In its processing of the initial application the HEW regional office can determine the tentative amount of the maximum insurable mortgage as follows:

- (1) Using the Guide Form of the HEW Final Approval Letter add Items 5, 7 and 9.
- (2) Divide the total amount by the factor shown in Column 3 below, which is based on a 7% interest rate mortgage:

(1) <u>Construction Period</u> <u>(Months)</u>	(2)* <u>Carrying Charges and</u> <u>Financing (%)</u>	(3)* <u>Factor</u> <u>(100 - Col. 2)</u>
12	8.3	91.7
15	9.3	90.7
18	10.3	89.7
21	11.3	88.7
24	12.3	87.7
27	13.3	86.7
30	14.3	85.7
33	15.3	84.7
36	16.3	83.7

\*Note for nonprofit facilities each percentage in Column 2 should be increased by 2.0 and each percentage in Column 3 reduced by 2.0 to reflect AMPO in nonprofit proposals where applicable (or a lesser percent if so desired by the applicant).

(To compensate for any change in the maximum interest rate the above columns 2 and 3 may be adjusted either up or down by .0625 for each 3 month interval cumulatively for each 1/2 of 1% change in the interest rate - Increased interest rate - column 2 would be increased and column 3 decreased; Decreased interest rate - column 2 would be decreased and column 3 increased.)

The percentage figure in Column 2 includes mortgage interest, mortgage insurance premium, HUD-FHA application, commitment and inspection fees, the FNMA commitment, purchasing and marketing fee, and Allowance to Make Project Operational (AMPO) (where applicable). Not included are real estate taxes, fire and hazard insurance (usually in the construction contract) and title and recording expense.

Upon publication of any change in the maximum interest rate, a new table of factors will be issued based upon the new rate.

- f. Approval of Initial Application. After approval of HEW initial application, the Regional Office advises the applicant to submit formal application, FHA Form 2013-HOSP, to HUD through approved lender, at the same time advising the State Agency that it is in order to issue a Certificate of Need to the sponsor.

- 2-3. REVISED APPLICATION: THE AGREEMENT: Certain cost and other information must be submitted after bids have been opened and approved and before the construction contract is awarded. In straight-loan projects, this information replaces the revised application. In combined projects this information is submitted with the Revised Application. This information establishes a basis for initial mortgage insurance approval and an agreement whereby the applicant agrees to construct the project in accordance with the approved application. After this approval, the applicant will be notified concerning the procedure of making an amended application to HUD for mortgage insurance.

In addition to cost figures shown on this part of the application, carrying charges and financing during construction will be added. These later costs will be calculated precisely by the HUD Office concerned prior to final approval of the loan.

- 2-4. REVISED APPLICATION OR EQUIPMENT: COMPLETION OF PROJECT. When construction of the project is completed, the applicant submits a revised application and/or substitute information reflecting final project costs. Total mortgage amount endorsed will be the original insurable amount, or 90% of the actual total project cost, whichever is less. After a final inspection of the project by the HEW Regional Office, HUD will be notified that (final) endorsement of the mortgage is in order.

2-5 DESIGN OF THE PROJECT AND CONTRACT REQUIREMENTS.

- a. Predesign Conference. The design of a project should begin with the scheduling of a predesign conference. The conference should be attended by the applicant, the project architect, and representatives of the State agency and the Regional Office. It is recommended that the conference agenda include a written program which sets forth the requirements of the facility, specification content, the need for current cost estimates, and the responsibilities of all concerned with the project.
- b. Construction standards and minimum requirements. The General Standards of Construction and Equipment for Hospital and Medical Facilities are contained in the Public Health Service Publication No. 930-A-7. A thorough study of these standards by the applicant and his architect is necessary before the design of the project is started. These standards constitute the minimum requirements for construction. Other recommended design guide material is available from the HEW Regional Office. Consultation services on the technical and administrative aspects of the functional program in existing facilities, or the proposed programs for new facilities, are available upon request to the HEW Regional Office.
- c. Submission of drawings, specifications, and other material. To assist the applicant in pursuing an orderly routine in the development of the project, the drawings and other design material shall be submitted to the HEW Regional Office in three stages:
  - (1) First stage - schematics. When the building site has been selected, the next planning step takes the form of small scale schematic drawings. The information contained in the narrative program (described under paragraph 2-2) will be translated into terms of required areas and their functional relationship. Based on the narrative program and studies by the applicant's architect, the results should be a fairly accurate concept of the final form of the facility. This plan should be studied in detail by all concerned and necessary changes should be made at this time. Schematic drawings are to be submitted with the initial Application.

After the schematic drawings have been agreed upon, a reasonably accurate estimate of the project cost can be made. This estimate should include the cost of construction of the building(s), fixed and movable

- 
- (2-5) equipment, architect's and consultant's fees, inspection and supervision, parking areas, grading, walks, roads and landscaping, and contingencies.
- (2) Second stage - preliminaries. After the schematic drawings and initial cost estimates have been approved, the plan should be developed to a larger scale indicating major items of equipment for the building. During the preliminary stage, the architect and his consulting structural, mechanical, and electrical engineers will have been studying the program requirements to determine the most economical and practical systems of foundations, structural framing, plumbing, heating, electrical distribution, ventilation, and air-conditioning. They must determine which type of fuel is most economical, which types of elevators and control devices will be most satisfactory, which materials are most suitable from the point of view of economy, function, and maintenance. These questions must be decided before proceeding with the third stage (working drawings). Each floor plan should show the square feet of space and the number of beds required, and should indicate the function of each room.
- (a) The architect should now review the cost estimate and advise the applicant if adjustments in the budget are required.
- (b) During this planning phase, the architect should have given all those concerned with the project ample opportunity to study the drawings and to make comments and recommendations. The design team may now proceed with the development of final working drawings and specifications.
- (3) Third stage - working drawings. The working drawings are the final stage of the design process. These are the drawings upon which the contractor will base his bid. It is of the utmost importance that they represent in every instance and in great detail exactly what is to be constructed. This will minimize misunderstandings, claims for extras, and change orders during the construction period.
- (a) The final working drawings should comply with the requirements contained in Public Health Service regulations. Separate drawings shall be prepared for each of the branches of work: (1) architectural, (2) structural, (3) mechanical, and (4) electrical.

- (2-5) (b) The working drawings, together with the specifications, are the most important documents constituting the contract. They translate concept into accomplishment. On their quality depends exactness in estimating and effectiveness in building what was planned. Their careful preparation is the best insurance for trouble-free execution of the work.
- (c) Upon completion of the working drawings, a revised estimate of cost for the work should be prepared by the architect to alert the applicant on the amount of financial obligation he must be able to meet.

d. Contract Specifications.

Content of specifications. The title sheet shall contain the name of the project, its location, type of work, name and address of the owner, the architect, the consultant (if applicable), the date of specifications, a brief description of the work, and shall indicate whether public advertisement or selective bidding is to be used. An index should be included.

- (1) Instructions to Bidders. The instructions to bidders shall include detailed information regarding various legal or established requirements in connection with the preparation, submission, and consideration of proposals, and for the construction of the project. Time for completion, liquidated damages, if specified, the handling and return of bid deposits, and details relating to bidding and contract award shall also be included. If the Schedule of Drawings is not set forth as a separate section of the specifications, it should be included in these instructions.
- (2) Bid forms. A separate bid form shall be included for each part of the work for which a bid is requested. The bid forms shall contain all pertinent agreements including all addenda relative to the contract which the bidder should acknowledge when filing his proposal. When alternate bids and/or unit prices are required, they should be made a part of the proposal. The amount and type of bid deposit should also be stated.

- (2-5) (3) Form of contractor-owner agreement. For the advance information and knowledge of bidders, the construction contract form which must be a "lump sum" type shall be contained in the specifications.
- (4) Supplemental general conditions. General conditions should be supplemented when exceptions or additional information are required in connection with the project and may include such items as conditions relating to the geographical area, laws, codes, and regulations of area in which the building is located.
- (5) Alternates. A reasonable number of alternate prices may be requested in the bidding documents. The reason for requesting alternate prices are (1) to allow a decision between two materials or methods of different value and (2) to adjust the bids received so that the contract sum will fit within the budget.
- (6) Technical specifications. The technical portions of the specifications are the requirements and instructions for all trade sections or divisions of the work describing the materials, workmanship, and equipment required for the construction of the project.
- (7) Addenda. Addenda to the drawings and specifications consist of notices or bulletins sent to bidders to notify them of any necessary corrections, interpretations, or changes in the requirements of the drawings and specifications. Addenda must have the approval of the State agency and the regional office and be issued in time to reach bidders prior to their submission of bids.
- (8) Approval and format. The Public Health Service Regulations--Part 53, require an assurance that the applicant will obtain approval of final working drawings and specifications from the Public Health Service before the project is advertised or placed on the market for bidding.

e. Mandatory Requirements to be Specified.

- (1) Time for completion. The specifications must stipulate a time of completion, either in calendar days or as a fixed date, for each construction contract included in the project. This is an important item and is used, among other things, to assure that all bidders are competing on an equal basis.

- (2-5)      (2) Labor standards. The Labor Standards which include the Copeland Act, Anti-Kickback Regulations, the Davis-Bacon Act, and the assurance of non-discrimination in contract employment for all contractors, subcontractors, and vendors as required by Executive Order 11246, dated September 24, 1965, shall be incorporated in the specifications without change.
- (3) Wage determination applicability. Applicants must obtain wage determinations for inclusion in the bidding documents. The request should be submitted through the State agency to the regional office six weeks before the bid opening date.
- (a) The request should contain the following information:
- 1 Name of facility, project number and location including county;
  - 2 Type of project, i.e., new hospital, nursing home;
  - 3 Estimated value of construction contracts;
  - 4 Description of project, type of building, number of stories, number of elevators, and whether the building is air conditioned;
  - 5 Name and address of project architect;
  - 6 Approximate date project will be advertised for bids, bid opening date, and proposed date for award of contract;
  - 7 Listing of other projects that are under construction or have recently been constructed in the area, including type of building, cost and the contractor's name and address.
- (b) The wage determinations are effective for 120 days from date of issuance. If not used within that time period, a redetermination must be requested.
- (4) General conditions. The Public Health Service General Conditions, AIA Document 201-/SC, Federal Supplement to General Conditions, or any other general conditions

- (2-5) developed by an acceptable organization are to be made a part of the specifications. Public Health Service General Conditions are available from the State agency. If they are not used, the following must be incorporated into the general conditions:
- (a) The paragraph quoted below must be incorporated into the general conditions and also appear at the beginning of each section or division of the specifications:
- "Notwithstanding any reference in the specifications to any article, device, product, material, fixture, form, or type of construction by name, make or catalog number, such reference shall be interpreted as establishing a standard of quality and shall not be construed as limiting completion; and the Contractor, in such cases, may at his option use any article, device, product, material, fixture, form or type of construction which in the judgment of the Architect expressed in writing is equal to that specified."
- (b) Representatives of the Secretary, HHS, and the State agency shall have access to the work site.
- (c) The following requirements apply to the Section 242 Hospital Program:
- 1 When the estimated cost of construction or rehabilitation is \$500,000 or less and no Hill-Burton Grant or HHS guaranteed loan is involved, the mortgagor shall furnish assurance of completion of the project in the form of a personal indemnity agreement (Personal Undertaking Form FHA 2459), signed by the principal individual(s) responsible for construction or rehabilitation of the project.
  - \* 2 In the absence of personal indemnity agreement when the estimated cost of construction or rehabilitation is more than \$500,000 and in all cases involving Hill-Burton Grants or HHS guaranteed loans, the mortgagor shall furnish payment and performance bonds each in the minimum amount of 100 percent of the accepted price. The standard forms to be used are No. 2452, Performance Bond-Dual Obligee and No. 2452-A, Payment Bonds.

- (2-5)            (d) The contractor shall obtain and maintain insurance for himself and all subcontractors to include coverage for:
- 1 Statutory workmen's compensation and employer's liability.
  - 2 Bodily injury liability (\$300,000/\$500,000).

- 3 Property damage (\$100,000/\$300,000).
- 4 Owner's protective liability for bodily injury (\$300,000/\$500,000), property damage liability (\$100,000/\$300,000).
- (5) Fire and extended coverage. The contractor shall insure the building or other work included in the contract against loss or damage by fire and against loss or damage covered by the standard extended coverage insurance endorsement. The policies shall have attached thereto a standard mortgage clause making loss payable to the mortgagee and the secretary as their interests may appear, and certificates of the insurance company as to the amount and type of coverage, and the terms of policies shall be delivered to the owner before any partial payment is made. The policy shall provide for the inclusion of all other contractors, subcontractors, and others employed on the premises as named insured.
- (6) Competitive specifying. All manufacturers of materials and equipment of comparable quality should have an opportunity to receive consideration under competitive bidding conditions that are fair to the manufacturer, the owner, and the contractor. All bidders must be offered a definite basis for competitive bidding. The project specifications shall describe each item of material and equipment in terms sufficiently clear to assure that all bids made in compliance therewith will be for products of substantially the same quality. Conditions or limitations within the specifications which are designed to limit bidding to only one of several known sources of supply may violate the principles of competition. The HEW regional office should be consulted for further information regarding acceptable methods of specifying materials and equipment.

2-6. BIDS, AWARDS, CONTRACTS, AND MODIFICATIONS.

- a. Bidding procedures. Construction contract awards shall be based on competitive bids. In obtaining competitive bids, either of the following methods may be used:
  - (1) Open bidding: public advertisement in suitable newspapers (advertisements must appear prior to the release of bidding material to any bidder).

- (2-6) (2) Selective bidding: selection of and invitation to three or more competent bidders to submit bids. When bids are obtained from a selective list, care should be taken to ensure that each of the invited bidders is willing to bid.

THERE CAN BE NO IDENTITY OF INTEREST BETWEEN THE SPONSOR/  
MORTGAGOR AND THE CONTRACTOR.

- b. Bid openings. Bids shall be opened publicly at the time and place stated in the invitation for bids, and the owner shall furnish the HUD Regional Office with three copies of a tabulation of all bids received.
- c. Inspection of bids. The applicant shall make the original bidding documents available for inspection by authorized representatives of the Secretary, HEW.
- d. Low bid exceeds application estimate of eligible costs. When the bids received are higher than the estimated cost shown in the approved application, the applicant may:
  - (1) Demonstrate to the satisfaction of the Secretary, HEW, that additional financial resources are available to pay the increased cost.
  - (2) On the basis of revised plans and specifications, solicit bids from the original contractors; however, prior to readvertising, the revisions must have the approval of HEW.
  - (2) Negotiate, within reasonable limits; i.e., approximately five percent with the low bidders on items of construction. The negotiations can be at the discretion of the applicant; however, the State agency and the HUD Regional Office should approve all such negotiations since they could, if extensive enough, change the project concept.
- e. Contracts. Construction work shall be performed by the "lump sum" (fixed price) method. The work may be let under one contract, or bids may be received separately for major branches of the work. In either case, the contract shall be awarded to the responsible bidder submitting the lowest acceptable bid.

- f. Submission of bids and contracts for approval. No award of contract shall be made until the final part of the application has received the approval of the HUD Regional Office.
  - g. Disqualification of certain bidders. Anyone furnishing design and/or supervisory services on a project must be disqualified as a bidder on such projects. The acceptance of such a bid would be in violation of the requirements of competitive bidding since the firm or individual providing such service is in a preferred position.
  - h. Preaward conference. Prior to award, the low bidder and known subcontractors may be required to attend a preaward conference for the purpose of formulating an affirmative action program relating to equal employment opportunity during the construction of the project. Applicants are advised to contact the HEW Regional Office before taking bids or awarding contracts for any project to determine whether a preaward conference should be held. This requirement may be accomplished at the time as the Preconstruction Conference (Paragraph 2-9 below).
- 2-7. PROPRIETARY FACILITIES. Proprietary facilities are required to make payments into a reserve fund for replacements of equipment. To calculate the annual payment to the reserve, HEW will take 10% of the amount of the equipment included in the replacement cost. This figure will be stated to the HUD office in the HEW Final Approval Letter.
- 2-8. CONSTRUCTION OF THE BUILDING. The applicant is responsible, for completing the work in accordance with the approved plans and specifications and for securing compliance with labor standards. A full-time applicant's (or architect's) representative is recommended; the cost of his service is allowable for Federal participation.
- 2-9. PRECONSTRUCTION CONFERENCE. Immediately after signing all Building construction contracts, the applicant should arrange for a meeting of the Regional Office personnel with the architect, clerk-of-the-works, consultant, prime contractor, and the principal subcontractors. This discussion of the responsibilities of the various parties will help to overcome misunderstandings and problems which may arise during construction. On joint projects, representatives of other agencies may wish to attend the meeting. (The purposes of the Preaward Conference may be accomplished prior to these Preconstruction Conference items, at the same meeting.)

- 2-10. ALLOWABLE AND NONALLOWABLE COSTS. Summarized in Appendix 4. A necessary modification of Item 12 of this Appendix (Space for Private Practice of Medicine) to be consonant with a specified intent of Section 242 of the National Housing Act as added by Section 1501 of the Housing and Urban Development Act of 1968, i.e., to encourage the group practice of medicine, is reflected therein.
- 2-11. LABOR STANDARDS. Securing compliance with labor standards will require the applicant to:
- a. Check weekly payrolls to assure that they contain the required information and that Labor Standards are properly certified and are accompanied by the required Anti-Kickback affidavits.
  - b. Verify that wages are not less than those shown on the wage determination, that all classifications employed are listed therein, and that the requirements are met if apprentices are employed.
  - b. Assure that a copy of the wage determination is posted at the site in a place where it can be easily seen by the workers.
  - d. Maintain and preserve all payrolls, affidavits, and other pertinent data during the life of the contract and for five years after completion of construction or until a Federal audit is made.
  - e. Withhold sufficient payment from the contractor, in the event of an alleged labor standards violation, in accordance with the provisions of the labor standards.
  - f. In the case of a violation, submit a report describing the violation and its settlement to the HEW Regional Office (in accordance with the labor standards).
- 2-12. COMPLETION DATE. The date of completion for determination of actual costs is established by HEW. The mortgagor must submit to HEW a revised Hill-Burton application reflecting the final, actual, project costs including all carrying charges, and financing and discounts up to the date of completion as established by HEW. These costs will be reviewed by HEW. (See Paragraph 3-4.b.(2).)

- 2-13. POSTCONSTRUCTION OPERATIONS. The applicant shall arrange for a final inspection by submitting a request to the Regional Office when the construction work is complete.
- a. As-built drawings, showing all changes, deviations, and corrections, particularly relocations of electrical, mechanical, and other utility services, should be prepared and maintained by the applicant.
  - c. The applicant shall inspect the project prior to the expiration of the guarantees contained in construction contracts so that any defects resulting from the use of inferior materials, equipment, or workmanship may be corrected.
  - c. ATTENTION IS DIRECTED TO THE ASSURANCES SET FORTH IN THE APPLICATION REGARDING COMPLIANCE WITH MINIMUM STATE STANDARDS FOR MAINTENANCE AND OPERATION AND FOR THE PROVISION OF FREE PATIENT CARE TO THE EXTENT FEASIBLE.
- 2-14. INCOMPLETE OFF-SITE AND ON-SITE FACILITIES. In the case of incomplete on-site and off-site facilities, approval of the final advance of mortgage proceeds may be given when the incomplete items are minor in nature, all off-site utilities such as sewer, water, electrical and gas facilities are installed and connected, and adequate facilities for ingress and egress are provided, and a cash escrow for completion of the facilities is deposited with the mortgagee under an appropriate agreement. Except for landscaping and exterior improvements which cannot be completed because of weather, the amount of the escrow must be at least twice the HEW Regional Office's estimated cost of completion to assure an incentive to complete the work taking into consideration a possible rise in cost. The escrow for landscaping and exterior improvements must not be less than the estimate of cost of completion by the HEW Regional Office. It is not anticipated that there will be changes during construction. If the applicant desires to make a change which constitutes a significant betterment on HUD insured mortgage projects, the change order must be reviewed and approved by the HEW Regional Office.
- 2-15. EQUIPMENT.
- a. Applicant's responsibility. It shall be the responsibility of the applicant to prepare a list of and to select and purchase all necessary equipment for the complete functioning

- (2-15) of all services included in the project. Consumable items, disposable items, and items of current operating expense such as fuel, food, and drugs are considered supplies and shall not be included in the project equipment list.
- b. Classification. Equipment items shall be classified in two main groups:
- (1) Fixed (realty) equipment is defined as equipment which is permanently affixed to the building or which must be connected to a service distribution system designed and installed during construction for the specific use of the equipment. It includes items such as extractors, walk-in refrigerators, inter-communication systems, and built-in casework.
  - (2) Movable (nonrealty) equipment is defined as all items of equipment which are not considered to be fixed equipment. It includes items such as operating tables, obstetrical tables, anesthesia apparatus, wheeled equipment, portable paging systems, etc.
- c. Purchase. Items of fixed equipment not included in the construction contract are to be purchased competitively, except where justification is submitted in writing by the applicant and approved by the State agency and the HEW Regional Office.
- (1) Movable equipment may be purchased on the open market, by securing quotations, or through competitive bidding procedures.
  - (2) Applicants who do not include all fixed equipment in the construction contract and let separate contracts for furnishing and installing certain items of fixed equipment must include in such separate contracts all provisions for contract security, insurance, and compliance with labor standards except that labor standards need not be included for contracts under \$2,000.
- d. Equipment lists. Separate lists of equipment are to be submitted by the applicant as soon as possible after the award of the construction contract for (a) all fixed equipment purchased outside the construction contracts, and (b) all movable equipment.

- (2-15)      (1) Fixed equipment which is not to be included in the construction contract shall be shown on the preliminary stage of the plans (second stage) to ensure its coordination with the architectural, mechanical, and electrical phases of the work.
- (2) The purposes of the equipment lists are:
- (a) To provide the applicant with a mechanism for systematically determining the equipment needed for the facility; and
- (b) To provide the HEW Regional Office with the information necessary to determine that the equipment is essential to and adequate for the services provided by the facility, and that the items to be purchased are of reasonable cost and allowable for inclusion in the estimated replacement cost.
- (3) The approved equipment lists shall not be used as a means of policing the selection and purchase of equipment by applicants. In the purchase of equipment, the applicant may make substitutions, omissions, or changes in quantity of items, provided that the nature and extent of the services are not materially affected by the changes.
- (4) The cost of all movable equipment should include equipment on hand and equipment to be purchased. Costs shall be shown for all equipment except equipment on hand or equipment purchased through the construction contract.
- (5) When rooms, such as bedrooms, are to be identically equipped, the equipment list should show the equipment planned for one room only and identify the additional rooms which are to be so equipped. Cost estimates should be projected for equipment to be purchased for all rooms. A recapitulation for equipment items by departments should also be submitted.
- (6) If more than one project is involved in the approved application, the equipment list should be prepared for the entire facility under construction. If an item of equipment will serve more than one project, the total cost of the item is to be shown, and the amount to be charged to each project shown in the designated columns. The applicant shall indicate by attachment to the equipment list the basis for the proration of the cost among projects.

- (2-15) e. Amending the equipment list. The applicant should amend the equipment list for either of the following purposes:
- (1) To add additional items not included on the original approved list.
  - (2) To reflect a change in the list made necessary by a change in the scope of the project or a change in the services to be provided.

Equipment lists may be amended by submitting revised pages showing the items deleted, changed, or added.

---

CHAPTER 3. HUD PROCESSING AND PROCEDURES

- 3-1. FORMAL APPLICATION. An initial formal application, FHA Form 2013-HOSP., with a fee equal to \$1.50 per \$1,000 of the mortgage amount requested, will be submitted to the HUD Office through a HUD-FHA approved mortgagee, after review and approval of the feasibility of the proposal by the HEW Regional Office (initial HEW application). The HUD office will be notified of the HEW approval either directly or by copy of the HEW feasibility approval letter to the sponsor.
- a. Nonprofit processing. The application will not be reviewed by HUD. It will be numbered and the fee deposited as set out in the fiscal instructions. The fee will be transferred to HEW by the Office of the Comptroller, HUD-FHA, and is not thereafter refundable. A feasibility letter, using the format set forth in 1-6.b.(1) of this handbook, will also be issued to the sponsor by HUD. Copies of the numbered application and copies of the feasibility letter will be sent to the HEW regional office and to the Director, Office of Unsubsidized Insured Housing, HUD-FHA, for their files. FHA form 2530 Previous Participation Procedure is not applicable to nonprofit facilities in this program. Approval of non-profit sponsors or mortgagors has been delegated to HEW.
- b. Proprietary (Profit-motivated) processing. FHA Form 2530, Previous Participation Procedure is required on proprietary proposals. Proprietary sponsors prior to filing initial HEW application will submit a completed FHA Form 2530 to the local HUD Field Office with a covering letter stating that the proposal will be for a proprietary hospital. Upon clearance of the sponsors the HUD office will notify the sponsors by letter that they may file application with the HEW Regional Office. (A copy of this letter will be sent to the HEW Regional Office.) During the HEW processing of the initial application, communication between HEW and HUD may have been made on proprietary facilities. (HEW will, if necessary, have communicated with the HUD office to determine the amount of real estate taxes during construction and the amount after completion to be used in processing the proposal.) The initial formal HUD-FHA application will not be processed by HUD. The application will be numbered and the fee

deposited as set out in the fiscal instructions. The fee will be transferred to HEW by the Office of the Comptroller, HUD-FHA, and is not thereafter refundable. A feasibility letter, using the format set forth in 1-6.b.(1) of this Handbook, will be issued to the sponsor. Copies of the numbered application and copies of the feasibility letter will be sent to the HEW regional office and to the Director, Office of Unsubsidized Insured Housing, HUD-FHA, for their files.

NOTE: In some instances, HEW may desire assistance from the local HUD office in making their determination as to the market values of land. If HEW requests assistance from a HUD office, the HUD office will provide such technical consultation and advice on the valuation of the site as may be necessary. (The final determination as to value remains the responsibility of HEW.)

3-2. HEW FINAL APPROVAL LETTER.

a. This letter will furnish:

- (1) The individual dollar amounts applicable to all estimated replacement cost items including land.
- (2) The maximum mortgage amount (debt service mortgage) that can be amortized from the estimated hospital income. HUD will not issue a commitment in excess of this amount. (HEW will indicate this maximum mortgage amount if HEW determines that debt service is the controlling criterion.)
- (3) Land at the appraised "as-is" value. Off-site construction is usually included in the construction contract and covered by the payment and performance bonds. If not included in the construction contract, it will be shown under Item (3) Other Costs, and completion assured in accordance with current HUD-FHA requirements.

b. Prior to issuing the final approval letter, the HEW Regional Office will:

- (1) If applicable, have reported to the areawide planning group as required by Section 204 of the Demonstration Cities and Metropolitan Development Act of 1966.

- 
- \* (2) Have checked for ineligible contractors and subcontractors. Normal HEW procedure provides for review as to ineligibility as designated by the Comptroller General of the United States. The HEW Regional Office will communicate with the Director Office of Multifamily Housing Development in Headquarters to see if Contractors or subcontractors are on the HUD ineligible list.
- (3) On proprietary facilities determine the amount of the annual deposit to the Reserve Fund for Replacement.
- (4) Indicate the amount of real estate taxes, if any, during construction and upon final completion. (On proprietary facilities real estate tax figures will be calculated by HEW during the HEW feasibility processing, if necessary, they may ask assistance of the HUD Field Office in determining the amount of real estate taxes.)
- (5) Operating deficit, if any, during the period of initial operation will be determined by HEW. If such a deficit is contemplated a provision for such contingency will be set forth in the HUD commitment.
- (6) The amounts, if any, determined by HEW for (3), (4), and (5) will be entered on the HEW Final Approval Letter.

3-3. COMMITMENT. Upon receipt of the final approval letter and the amended HUD application, the case will be processed by the Mortgage Credit staff of the HUD office. Upon completion of processing, a firm commitment to insure a mortgage will be issued to the mortgagee. The commitment will require the mortgagor to provide assurance of completion and prevailing wage certifications. It will also include a statement of the financial requirements to be met by the mortgagor and will specify conditions under which advances of the mortgage proceeds will be made. Within 30 days from the date of the commitment, a commitment fee must be paid which, when added to the application fee, will aggregate \$3.00 per \$1,000 on the amount in the commitment. The commitment fee is retained by HUD.

- a. HUD underwriting processing is limited to the estimation of carrying charges, financing expense, title and recording expense; establishing the maximum insurable mortgage amount and financial requirements for closing; and processing requests for advances of mortgage proceeds. (On proprietary facilities, in addition to the foregoing, the HUD Field Office will handle the Previous Participation Certificate, Form FHA 2530 and may assist HEW in determination of real estate taxes.)
-

- (3-3) Mortgage Credit procedures and analysis are to be completed in accordance with the following instructions, using Forms FHA 2264 (Hosp) 2283 (Hosp) 2448 (Hosp), 2403, 2451, and 2580. (See reference (1) of the Foreword for instructions.)
- b. Amount and amortization period of loan. The mortgage shall involve a principal obligation in an even multiple of \$100 and a term not in excess of 25 years from the commencement of amortization. Monthly payments to principal and interest shall be based on the Level Annuity Monthly Payment Plan.
- c. Amount of loan.
- (1) New construction - not involving rehabilitation or reconstruction of existing structures. The insurable mortgage amount shall not exceed the lowest of:
- (a) \$50,000,000.
  - (b) 90% of the total estimated replacement cost including mortgageable equipment and furnishings. (Less 90% of value of the leased fee, if leasehold, and/or 100% of the principal amount of special assessments if applicable.)
  - (c) 100% of the total estimated replacement cost including mortgageable equipment and furnishings, minus the amount of any loans, grants or gifts from other sources which are of a nature that is intended to offset cost and mortgage financing. (Less value of the leased fee, if leasehold, and/or 100% of the principal amount of special assessments, if applicable.)
- (2) Rehabilitation - Defined in paragraph 1-7.b. The insurable mortgage shall not exceed the lowest of:
- (a) The amounts set forth under new construction
  - (b) Property owned. 100% of the estimated current cost of rehabilitation plus the lesser of (a) principal amount of existing indebtedness against property, if any, or (b) 90% of the estimated market value of property before rehabilitation (less 90% of value of leased fee, if leasehold, and/or 100% of the principal amount of special assessments, if any).

(3-3)

NOTE: When the hospital involves an expansion primarily of existing facilities requiring additional land, the mortgage shall not exceed the sum of:

- (1) The lesser of the amount of the Existing indebtedness against property, or 90% of the "as is" value of the existing facilities (less 90% of value of the leased fee, if leasehold, and/or principal amount of special assessments, if applicable), plus
  - (2) The cost of new improvements (including the cost of mortgageable items of equipment) closing charges, fees, etc., plus
  - (3) 90% of the lesser of cost of additional land or "as is" value of additional land.
- (c) Property to be acquired. 90% of the estimated cost of rehabilitation and new mortgageable equipment, plus the lesser of (a) 90% of the actual purchase price of property, or (b) 90% of the market value of property before rehabilitation (less 90% of value of leased fee, if leasehold, and/or 100% of the principal amount of special assessments, if any).
- (d) Five times the sum of the cost of new improvements and cost of mortgageable equipment which is not in excess of the cost of new improvements.

NOTE: The word "property" as used in the foregoing limitations means both real estate and mortgageable items of equipment, And the word "indebtedness" means an indebtedness against the real estate and mortgageable items of equipment.

- (3) If the maximum insurable mortgage is higher than the amount approved by HEW, the commitment shall be issued in the lower amount. When HEW approves a higher amount than arrived at as shown above, it must be resolved between the HEW Regional Office and HUD office.

- d. Over and above money for nonprofit hospitals. Because nonprofit hospitals traditionally receive gifts and donations during construction and, in the case of existing hospitals which are being rehabilitated, income during construction, in this program it is permissible, as set out in the FHA Regulations, for the mortgagee to accept an unconditional, irrevocable letter of credit in lieu of cash for over and above money. (See paragraph 3-4. b.) (This provision is not applicable to proprietary facilities, over and above money on proprietary proposals must be in cash.)

3-4. INSURANCE OF ADVANCES.

- a. Initial closing. If the project involves insurance of advances during construction, there will be an initial closing of the loan prior to beginning of such construction. In cases where the parties cannot go to initial endorsement immediately, the HUD office director may grant permission to start construction prior to initial endorsement (after receiving clearance from the HEW regional office) upon execution of FHA Form No. 2415, Request for Permission to Commence Construction Prior to Initial Endorsement for Mortgage Insurance. This permission may be given upon a showing that there are valid reasons why an immediate closing is not practicable; there is every reasonable assurance that closing will take place in the near future; and early start of construction will not act to the detriment of the Assistant Secretary-FHA Commissioner's interest.

FHA Form No. 1022, FHA Legal Requirements for Closing is used to show the required documents. As required by the commitment, a prior review of the documents will be made by HUD and HEW to assure that they will be in order at initial closing. A representative of HEW will attend the closing to approve any document involving HEW participation. The designated HUD HEW liaison man will coordinate in setting the closing date. When all financial and other requirements called for in the commitment have been met, HUD will initially endorse the mortgage for insurance.

- b. Construction. Construction of the project may begin immediately after initial closing.

- (3-4) (1) Advances of mortgage proceeds will be requested on Form FHA-2403, Application for Insurance of Mortgage Proceeds, and processed in the same manner as under other programs with the following exceptions:
- (a) When the mortgagee accepts a letter of credit in lieu of a cash deposit for over and above money on a nonprofit project, all mortgage proceeds may be approved for advance prior to any demand being made under the letter of credit for additional funds necessary to complete the project.
- \* (b) Requests for construction advances from either mortgage proceeds, the mortgagor's cash deposit, or letter shall reflect a 10 percent holdback. In those instances where a construction manager administers the construction contract, the requirement for a 10 percent holdback may be modified as follows:
- 1 Where a subcontractor has completed work, and the supervisory architect so certifies, the 10 percent holdback for such work may be released with the surety's consent. The portion of the holdback attributable to the construction manager's fee may not be released.
- \* 2 Under a Hill-Burton Grant, payments are made to the mortgagor by the Hill-Burton State agency. The mortgagor retains 10% of the amounts advanced until final completion and acceptance of all work covered by the construction contract(s); provided, however, that the architect may at any time after 50% of the work has been completed, if he/she finds that satisfactory progress is being made and written consent of the surety has been obtained, recommend that any of the remaining partial payments be paid in full. Upon written advice from the Department of Health, Education and Welfare Regional Office that 50% or more of construction has been satisfactorily completed; that the surety's written consent has been received; and that the remaining Hill-Burton

- (3-4)                      payments (if applicable) will be made to the contractor in full without a 10% deduction, the HUD office will also approve advances from the remaining mortgage amount without a 10% holdback. See Form FHA-2403 (Hosp.) Contractor's Requisition.
- 3    Timing of Hill-Burton payments. Hill-Burton payments are usually made at the 10%-25%-50%-75%-95% and 100% completion stages, after an inspection by the Hill-Burton State agency.

- (3-4) This method of payment and inspection will not affect approval of mortgage advances on the usual monthly basis by HUD, nor the method of computing the pro-rata HEW and HUD share of the amount requested by the contractor on Form FHA-2448 (Hosp.).
- (c) Non-realty equipment included in mortgage proceeds.
- 1 Not delivered to mortgagor by date of substantial completion. Any equipment item not delivered by date of substantial completion shall be treated as "incomplete on-site" and included in Form FHA-2456, Escrow Deposit Agreement, as revised. The required cash escrow will be the dollar amount applicable to the undelivered items.
  - 2 When an advance is requested only for mortgageable equipment not included in the construction contract, the request will be made separately on Form FHA-2403 without an accompanying Form FHA-2448 and without a 10% holdback being required.
- (d) During the construction period, an HEW Regional Office representative will visit the site from time to time to inspect the work being done. The commitment may provide for payment of an inspection fee of \$5.00 per \$1,000 of the mortgage amount set forth in the commitment which must be paid to HUD at the time of initial endorsement. The inspection fee will be transferred by the Office of Finance and Accounting, HUD to HEW
- (e) Any discrepancies on Form FHA-2403 must be satisfactorily explained before approval of the advance by HUD. If problems arise during construction, the HEW Regional Office, assisted by the HUD office to the extent possible, will try to resolve the matter. If the problem results in a hold up of advances, or a work stoppage, the Director, Office of Multifamily Housing Development, HUD, and the Director, Health Care Facilities Service, HEW, will be immediately advised by their respective offices.

- (3-4) (f) Construction changes. The insurable amount is set at initial endorsement. Therefore, construction changes are expected to be held to a minimum. All construction changes must be reviewed and approved by HEW. Generally, it is expected that the mortgagor will pay for any change order resulting in an increase in cost. If the cumulative net effect of approved changes is in excess of \$2,500, the mortgagor must show proof of payment or deposit the necessary funds with the mortgagee.
- 1 Mortgage increase due to construction changes. There may be some instances where a change will involve a significant betterment, as determined by HEW. If the mortgagor requests an increase in the insurable mortgage because of a significant betterment, which has the approval of HEW, the HEW Regional Office will advise HUD of its approval of the mortgage increase, giving the new construction contract amount and/or equipment cost, and increase in architect's fee if any. The HUD office will recompute the maximum insurable mortgage amount, and advise the mortgagor and mortgagee, in writing of the amount of increase that will be recognized, and that the increase will be disbursed at final endorsement. When construction has been substantially completed, and no further changes are anticipated, the mortgagee may submit an amended application, and the HUD office issue a Letter Agreement Authorizing Reopening of Mortgage Transaction. (See reference (2) of the Foreword.) Approval of the increase is subject to payment of the usual application, commitment and inspection fees on the increase.
- a Upon return by the mortgagee of the letter agreement, endorsed to evidence its acceptance, one copy shall be forwarded to the HEW Regional Office and one copy to the Director of Unsubsidized Insured Housing Programs.

- (3-4)
- b The mortgage increase will be accomplished with no change in the interest rate or amortization plan or in the maturity date of the mortgage.
- (g) AMPO (Allowance for Making Project Operational) for nonprofit projects. This fund, as set out in the Mortgagee's Certificate, FHA Form No. 2434, is primarily for accruals during the course of construction for mortgage insurance premiums, taxes, ground rents, property insurance premiums and assessments, when funds available for these purposes under the Building Loan Agreement have been exhausted; and also for allocation to such accruals after completion of construction if the income from the hospital at that time, is insufficient to meet such accruals. This fund may also be used for such other purposes as approved by HEW. Any balance remaining unused in the fund at final endorsement will be released to the mortgagor for deposit in its general funds.
- (h) Working Capital - Proprietary. Working capital deposit not to exceed 2% of the amount of the mortgage is required at initial endorsement to provide a contingency fund to protect against delay in completion of the project. It is to cover costs which may accrue due to taxes, mortgage insurance premiums, and assessments required by the mortgage during the period between initial endorsement and final endorsement of the mortgage for insurance, which costs were not included in the proceeds of the mortgage. (This deposit required only in cases of insurance of advances. It is not required in cases of insurance upon completion.)
- (2) Completion of Construction. When construction is completed, as determined by HEW, a completion date will be established by HEW. The mortgagor must submit a revised Hill-Burton application reflecting the final, actual, project costs including all carrying charges and financing and discounts. If a straight loan project is involved, the information will be submitted by certified statement from the mortgagor.

- 
- (3-4) (a) The HEW regional office will advise the HUD office of completion of construction, together with the date of completion, the actual project costs (in the same format as the final approval letter) and the dollar amounts of any incomplete on-site and off-site items. Normal HUD-FHA cost certification procedures are not applicable to this program.
- 1 The maximum insurable mortgage to be finally endorsed by HUD will be the lesser of the mortgage amount initially endorsed (committed upon in insurance upon completion cases) or:
- a New construction. 90% of the actual costs.
- b Rehabilitation.
- (i) Property owned. The actual cost of the new work plus the lesser of outstanding indebtedness or 90% of the fair market value of the property before rehabilitation.
- (ii) Property to be acquired. 90% of the actual cost of the new work plus the lesser of 90% of the purchase price or 90% of the fair market value of the property before rehabilitation.
- 2 Incomplete off-site and on-site facilities will be covered by a cash deposit with the mortgagee under FHA Form 2456, Escrow Deposit Agreement Except for landscaping and exterior Improvements which cannot be completed because of weather, the amount of the escrow must be at least two times the HEW Regional Office's estimate of the cost of completion. The escrow for landscaping and exterior improvements must be not less than the estimate of cost of completion.
- (3) Final advance. The final advance on nonprofit projects will include any unused AMPO funds. These unexpended funds will be released to the mortgagor for deposit in its general funds. The sum to be approved for advance
-

is the balance of the mortgage proceeds based on the maximum insurable mortgage as redetermined (FHA Form 2580) in accordance with the limitations set forth above under Completion of Construction.

- c. Final closing. FHA Form No. 1022, Legal Requirements for Closing shows the documents required for final endorsement of the mortgage note for insurance. A representative of HEW will attend the closing to approve any document involving HEW participation. The designated HUD-HEW liaison men will coordinate in setting the closing date. Among other things, the mortgagor will provide HUD and the mortgagee with a survey showing the completed project, and a title insurance policy, showing that the insured mortgage is a valid first lien on the mortgagor's property and that the mortgagor's title is free of all other liens (except any approved secondary financing). If the non-realty items necessary for the operation of the project are not covered by the lien of the real estate mortgage, the mortgagor will furnish the mortgagee with an appropriate chattel security instrument covering such items. When all required closing documents have been submitted and all commitment conditions met, the FHA will place its final endorsement on the mortgage note Showing the amount approved for insurance.
- d. Supplemental Certifications - FHA Forms Nos. 2023 and 2455. The supplemental certifications on these two forms concerning the submission of evidence of unpaid items need not be furnished in this program.

3-5. INSURANCE UPON COMPLETION. If the project involves insurance upon completion, construction of the project may begin when approved in accordance with the commitment conditions. Prior to the approval of the commencement of construction, the payment of an inspection fee in the amount of \$5.00 per \$1,000 of the amount of the mortgage set forth in the commitment must be paid on new construction (on rehabilitation or modernization, the inspection fee is \$5.00 per thousand on the cost of rehabilitation or modernization).

- a. Over and above money. In an insurance upon completion case, mortgage advances during construction are not insured. The mortgage is insured when the project is satisfactorily completed, free and clear of all liens, (except any approved secondary financing). Therefore, there is no requirement for a deposit of cash or irrevocable letter of credit for

the difference between total project cost and the mortgage amount. However, assurances in a form satisfactory to HEW may be required to show that the mortgagor has the financial capacity to meet this difference.

- b. Construction changes. The procedure set out in paragraph 3-4.b.(1) will be followed except that, in lieu of the Letter Agreement authorizing Reopening of Mortgage Transaction, an amended commitment will be issued.
  - c. Completion of construction. The procedure set out in paragraph 3-4.b.(2) will be followed.
  - d. Closing. The procedure set out in paragraph 3-4-c. will be followed. The first mortgage insurance premium of 1/2 of 1% of the mortgage amount must also be paid at this time.
- 3-6. OPERATION OF HOSPITAL. Unless a default occurs, the HUD office will have no servicing function. The annual financial report will be requested from the mortgagor by HUD Central Office in the usual manner, for submission to the HEW regional office. HUD will not receive or file a copy of this report.
- a. In the event of a default, the HUD office will immediately call upon the HEW regional office for a joint review of the causes of default and for assistance in suggesting to the mortgagor possible ways to cure the default.
  - b. Releases from Reserve Fund for Replacements (proprietary) will be handled by the HUD Field Office. On any unusual request for release the office may ask advice of the HEW Regional Office.
- 3-7. CORRESPONDENCE AND DOCUMENTS. Plans and specifications, and copies of the HEW processing documents will be maintained by the HEW Regional Office. However, all other pertinent Correspondence and forms, whether originated or received by HEW or HUD will be furnished each office. This will include copies of all approved significant construction changes and construction inspection reports being furnished to HUD, and copies of the application, commitment and related processing documents, and each FHA Forms No. 2403 and 2448 (Hosp) being furnished to HEW. In the event of assignment or foreclosure, the plans, specifications and processing documents will be made available to HUD.

\* 3-8. COMBINATION FINANCING

The Housing and Community Development Amendments of 1979 prohibit the use of combination financing (FHA mortgage insurance, GNMA mortgage-backed securities and tax exempt bonds) with certain limited exceptions. Instructions for dealing with those limited number of applications which may fall under either of the exemption categories are contained in the following paragraphs.

- a. Eligibility for exemption to the prohibition of combination financing can be met in two ways:
  - 1. An application for combination financing was submitted to HEW (now HHS) prior to March 29, 1979, or
  - 2. The hospital is a nonprofit entity; and
    - (a) Prior to June 7, 1979 written notification was made to HHS or HUD of the hospital's interest in combination financing; and
    - (b) Prior to June 7, 1979 the hospital had engaged an investment banker for, or had undertaken or arranged for, the undertaking of a market or feasibility study with respect to the advisability of combination financing; and
    - (c) The hospital receives from Medicare or Medicaid a percentage of its total revenue which is greater than 125 percent of the national average for hospitals.
- b. Applications for approval of combination financing under the above exemptions will be processed by the HUD Field Office having jurisdiction. In addition to the documentation normally required for such approvals, the following material shall be submitted:
  - 1. A financial comparison of the current and proposed financing plans, showing the nature and amount of the savings to the hospital to be achieved by the conversion.
  - 2. For applicants under exemption number 2 above, documentation demonstrating that prior to June 7, 1979,

the borrower engaged an investment banker or undertook or arranged for a market or feasibility study of combination financing.

- c. After receipt of an application for restructuring, properly documented, the HUD field office shall request written verification of the hospital's eligibility under the statutory exemptions from the Director, Office of Multifamily Housing Development, in Headquarters.
- d. After receipt of an application and written verification from Headquarters indicating that the hospital proposal is eligible, the field office will determine that:
  - 1. There is in fact a savings to the hospital.
  - 2. Fees in the restructuring are not excessive.
  - 3. Fees are to be paid from an acceptable source; i.e., cash, bond proceeds, or discounts realized on purchase of existing GNMA securities.
  - 4. The amount of the tax exempt issue does not exceed the outstanding mortgage balance.
- e. If the proposal meets all of the above, the HUD Office will advise the mortgagor/mortgagee that we will approve the restructuring provided the bond rate does not exceed that rate stated in the application for restructuring.
- f. If the nonprofit applicant requests permission to modify the mortgage to prohibit prepayment for the first 10 year period in order to facilitate the bond transaction, such request may be approved. Language changes must be reviewed and approved by the Area Counsel.
- g. Upon completion of the tax exempt bond issue, the applicant shall submit for HUD review a copy of the bond counsel opinion and a copy of the No Arbitrage Certificate. Field Offices shall review such documents to verify the fees, charges, and other costs previously approved with respect to the debt restructuring. Any instance where the information disclosed in the aforementioned opinion and certificate varies significantly from that contained in the application shall be reported to the Director, Office of Multifamily Housing Development for such action as may be necessary.

- h. To satisfy GNMA processing requirements, once the above findings are made, the mortgagee of record (GNMA issuer) shall be furnished with a letter which provides the revised interest rate and states that the application satisfies the Section 315 requirements as set forth in the Housing and Community Development Amendments of 1979.
- i. Additional Requirement. Any excess proceeds realized from the repurchased CLC's or PLC's after payment of expenses shall be placed in the Sinking Fund which was required to be established by HHS in conjunction with the initial financing. Funds in this sinking fund, required by HHS, can only be used for purposes approved by HHS and HUD.
- j. Increase in Mortgage Amount with Combination Financing. Section 242 of the National Housing Act was amended in 1981 and provided that where combination financing was involved, the Secretary has authority to approve an increase in the mortgage amount at any time prior to final endorsement of the loan. However, no increase in the mortgage amount may be approved for the cost of constructing any improvements not included in the original plans and specifications approved by HHS unless approved by the Secretary of Health and Human Services and the Secretary of HUD. If an increase is applied for by the mortgagee for construction costs which were not covered under the original plans and specifications, the request must be sent to the Director, Office of Multifamily Housing Development, in Headquarters in order to obtain the approval of the Secretary of HHS and the Secretary of HUD. Increases of this type are for minor cosmetic changes only. No increases will be considered for structural changes, additions, etc., nor for any increase in refinancing costs.
- k. GNMA Requirements. The mortgagee also must satisfy any requirements established by GNMA.
- l. Departmental Processing. While HHS is the primary processing agency in the Section 202 proposals, combination financing processing will be handled by HUD since the proposals will previously have been found feasible by HHS and the debt service will be reduced.

INSTRUCTIONS FOR PREPARATION OF  
FHA FORM 2013-HOSP.

- A. Indicate whether a Commitment for Insurance of Advances or a Commitment to Insure Upon Completion is desired.
- B. Indicate the total number of beds that will be in the proposed hospital when completed.
- B.8. A "Proposed" hospital is a completely new project, including complete replacement of an existing hospital. An "Existing" hospital is one that is to be rehabilitated (modernized) including additions thereto.
- C.4. Insert the cost of major movable equipment and furnishings.
- C.6. Include interest, real estate taxes (if any) and insurance (fire and extended coverage, public liability and other property insurance) during the construction. Do not include any insurance paid for by the contractor and included in the construction contract.

In new construction cases, interest is estimated based on one-half the mortgage amount requested for the number of months contemplated in the construction period. In rehabilitation cases, interest is estimated on 2/3rd the mortgage amount requested because of the large initial advance of mortgage proceeds to pay any outstanding indebtedness. If there is no outstanding debt to be paid from mortgage proceeds use 1/2 the mortgage amount as in new construction.

Financing expense (service charge) not to exceed 2% of the mortgage amount may be included to compensate the construction lender for its services during the construction period, plus a 1 1/2% FNMA fee (or placement fee). Do not include any mortgage discount which may be required.

AMPO (Allowance to Make Project Operational) of up to 2% of the mortgage amount may be included on new nonprofit proposals.

Under Title and Recording Expense, include only the estimated actual cost of the title search and title insurance, surveys, tax stamps and other mortgage and recording fees.

APPENDIX 1

---

Legal expenses shall include only necessary fees to legal counsel for services in connection with the project and necessary expenses paid by counsel for the account of the mortgagor, through final endorsement. Do not include any items properly belonging under Title and Recording Expense.

Organization expense shall include only reasonable expenses not otherwise classified and which are necessary for the creation of the mortgagor.

Consultant's fee is allowable only for nonprofit hospitals and then only to the extent that it involves work in connection with plans and specifications and the selection and purchase of equipment. Not allowable is the cost of conducting feasibility studies to determine need for construction or modernization of a facility.

Land (Appraised Value) is the as-is value of the land (new construction) or existing hospital (rehabilitation project) as determined by an approved appraiser.

- D.4. Enter the lower of the mortgage amount requested (plus Hill-Burton and other grants, if any) or 90% of Item C.10, Total Estimated Replacement Cost of Project.
- D.6. Insert amount of permanent loan discount.
- D.7. On proprietary proposals insert 2% of the mortgage amount. On proprietary proposals a working capital deposit of 2% of the mortgage amount is required.

On proprietary facilities delete the word NONPROFIT from the title of the form and put PROPRIETARY.

# Application for Hospital Project Mortgage Insurance

Hospital - Section 242

U.S. Department of Housing and  
Urban Development  
Office of Housing  
Federal Housing Commissioner

OMB No. 2502-0518 (Exp. 10/31/2004)

Project Name:

Project Number:

## Part I — Mortgagor's Application

To: \_\_\_\_\_ and the Secretary of Housing and Urban Development.  
The undersigned hereby applies for a loan in the principal amount of \$ \_\_\_\_\_ to be insured under the provisions of Section 242 of the National Housing Act, said loan to be secured by a first mortgage on the property hereinafter described.  
Insurance of advances during construction ☐ is, ☐ is not desired.

## B. Location and Description of Property

1. Street Numbers:		2. Street:			
3. Municipality:	4. County:	5. State:	6. No. of Beds:	7. Type of Project: <input type="checkbox"/> Elevator <input type="checkbox"/> One Story	8. <input type="checkbox"/> Proposed <input type="checkbox"/> Existing

## C. Estimated Replacement Costs

1. Total Construction Cost Per Contract(s)		\$
2. Fees		
Architect's Fee—Design	\$	
Architect's Fee—Supervisory		
Construction Mgmt. Fee		
Other Fees		
Total Fees	\$	
3. Other		
Site Demolition Costs	\$	
Other (Identify)		
Total Other	\$	
4. Equipment and Furnishings Actual Cost	\$	
5. Total for All Improvements and Equipment	\$	
6. Carrying Charges and Financing		
Int.	mos. @	%
on \$	\$	
Taxes		
Insurance		
HUD Mtge. Ins. Prem.	%	
HUD Exam. Fee	0.3 %	
HUD Inspec. Fee	0.5 %	
Financing Exp.	%	
Placement Fee	%	
AMPO	%	
Title and Recording		
Total Carrying Charges and Financing	\$	

## 7. Legal & Organization

Legal	\$	
Organization		
Consultant		
Total Legal & Organization	\$	
8. Total Estimated Replacement Cost (Excl. of Land)	\$	
9. Net Book Value on Existing Property, Plant, & Equipment	\$	
10. Total Estimated Replacement Cost of Project	\$	

## D. Estimated Cash Requirements

1. Total Project Replacement Cost (Excl. of Land)	\$
2. Land Indebtedness	
3. Total	\$
4. Less Mortgage Amount (& Grant or Approved Loans, if any)	
5. Cash Required	\$
6. Other (Identify)	
7. Other (Identify)	
8. Total Estimated Cash Requirements	\$

## For HUD Use Only

Date Received					
Amount					
Code					
Schedule					
Received by					

**E. Sponsors**

1. Name of Sponsor or Co-Sponsor:

Telephone Number:

Address:

Name of Sponsor or Co-Sponsor:

Telephone Number:

Address:

2. Relationship between Sponsoring Group and Mortgagor (Existing Connections or Proposed, if Mortgagor has not been formed).

**F. Certification** The undersigned, as the principal sponsor(s) of the proposed mortgage, certify(ies) that he/she (they) is (are) familiar with the provisions of the regulations of the Secretary of Housing and Urban Development under the above identified section of the National Housing Act and that to the best of his/her (their) knowledge and belief the mortgagor has complied, or will be able to comply, with all of the requirements thereof which are prerequisite to insurance of the mortgage under such Section.

It is hereby represented by the undersigned that to the best of his/her (their) knowledge and belief no information or data contained herein or attachments listed herein are in any way false or incorrect and that they are truly descriptive of the project or property which is intended as the security for the proposed mortgage and that the proposed construction will not violate zoning ordinances or deed restrictions.

Attest:

Date:

Signature: (Sponsor)

Date:

**Part II - Mortgage's Application**

To: The Secretary of Housing and Urban Development:

Pursuant to the provisions of the Section of the National Housing Act identified in the Mortgagor's application and HUD Regulations applicable thereto, application is hereby made for the insurance of a mortgage covering property described in the above application of the Mortgagor. After examination of the application and the proposed security, the undersigned proposed mortgagee considers the project to be desirable and is interested in making the loan in the principal amount of \_\_\_\_\_ Dollars

(\$ \_\_\_\_\_), which will bear interest at \_\_\_\_\_ percent ( \_\_\_\_\_ %), will require repayment of principal over a period of \_\_\_\_\_ months and, according to an amortization plan to be agreed upon. Insurance of advances during construction ☐ is, ☐ is not desired.

This application by the undersigned proposed Mortgagee is subject to your commitment, its own final action and the payment of its charges. It is understood that the financing expense in the amount of \_\_\_\_\_ Dollars

(\$ \_\_\_\_\_) is subject to adjustment so that the total will not exceed \_\_\_\_\_ percent ( \_\_\_\_\_ %) of the amount of your commitment.

Discount or placement fee for the mortgage is \_\_\_\_\_ %.

Herewith is check for \_\_\_\_\_ Dollars

(\$ \_\_\_\_\_), which is in payment of the application fee required by said HUD Regulations.

Signature: (Proposed Mortgagee)

Name &amp; Title of Officer:

☒

Address:



Original Certificate of Need Attached



Original Certificate of Need Previously Furnished

**To Be Completed by Each Sponsor and by the General Contractor**

Public reporting burden for this collection of information is estimated to average 64 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Applicants are required to complete this form to provide HUD with the necessary data to determine a hospital's eligibility for FHA insurance. HUD will use the information to determine that the applicant meets the requirements and eligibility criteria; underwriting standards; and adequacy of state/or local certifications, approval, or waivers. This collection of information is authorized by Section 242, Sections 223(a)(7), 223(e), 223(f), and 241(a) of 12 U.S.C. 1715z-7. This collection is required to obtain benefits.

**Privacy Act Notice.** The United States Department of Housing and Urban Development, Federal Housing Administration, is authorized to solicit the information requested in this form by virtue of Title 12, United States Code, Section 1701 et seq., and regulations promulgated thereunder at Title 12, Code of Federal Regulations. While no assurance of confidentiality is pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information request. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.

FHA FORM NO. 2576 (Hosp.)  
(May, 1969)

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
FEDERAL HOUSING ADMINISTRATION

**CERTIFICATE OF NEED FOR HOSPITAL AND  
ASSURANCE OF ENFORCEMENT OF STATE STANDARDS**

TO THE FEDERAL HOUSING COMMISSIONER: In accordance with the provisions of Section 242 of the National Housing Act, as amended, and applicable portions of Title VI of the Public Health Service Act, this agency \_\_\_\_\_, certifies as follows:

(Name of Agency)

1. According to their project narrative, this facility will provide \_\_\_\_\_  
(Types of Services)  
without duplicating such services already adequately provided within the service area, and without exceeding present needs for such services in the area, according to the applicable approved State plan.
2. In accordance with the approved State Hill-Burton Construction Plan for the fiscal year 19\_\_\_\_, there is a need for \_\_\_\_\_ to be constructed and/or \_\_\_\_\_ to be modernized, to be located at \_\_\_\_\_  
(Number of beds) (Number of beds)  
\_\_\_\_\_ in service area \_\_\_\_\_.
3. This Certification of Need for service area \_\_\_\_\_ in the state of \_\_\_\_\_ is issued in favor of \_\_\_\_\_  
(Name and Address of Sponsor)  
only, for construction and/or modernization of \_\_\_\_\_  
(Name and Address of Project)  
\_\_\_\_\_ only, and is in effect for \_\_\_\_\_ months from the date of issuance.
4. There are in force in the State (or other political subdivision of the State in which the proposed project will be located) reasonable minimum standards of licensure and methods of operation for hospitals.
5. The prescribed standards of licensure and operation will be applied and enforced with respect to the applicant hospital.
6. Amount of Hill-Burton grant or loan, if any \$ \_\_\_\_\_.

Date issued \_\_\_\_\_

Signature \_\_\_\_\_

Termination date \_\_\_\_\_

Title \_\_\_\_\_

Name of Agency \_\_\_\_\_

Address \_\_\_\_\_

## DEFINITIONS

1. CONSTRUCTION

The term construction includes projects for the construction of new buildings, and additions, expansion, remodeling, and alteration of existing buildings, and initial equipment of any such buildings (including medical transportation facilities).

A hospital complex of more than one individual building is eligible for consideration, provided the entire complex is under the one HUD-FHA insured mortgage.

2. REHABILITATION

In the HUD-FHA insured program the term "rehabilitation" includes:

- a. ADDITION TO EXISTING FACILITIES. Projects for additions are those which consist of additions to eligible facilities.
- b. MODERNIZATION. The term modernization includes replacement, major repair, remodeling, alteration, and renovation of buildings which are functionally or structurally obsolete (including initial equipment) and replacement of obsolete built-in equipment of existing buildings.
- c. REPLACEMENT. The term replacement means the replacement of an obsolete hospital or any portion thereof, on the same site or in the same service area. In the FHA program, replacement of the entire facility will be treated as a new facility.
- d. MAJOR REPAIR. Projects for major repair are those which consist of repairs to an existing building, excluding maintenance, which restore the building to a sound state.

When a project involves rehabilitation, the addition, or remodeled, altered or renovated building shall comply with the safety requirements (fire, structural, electrical, etc.) of the General Standards, PHS Publication No. 930-A-7, and applicable State and local codes. The safety provisions will apply only to the addition, or that portion or wing of the existing building which is being rehabilitated except that a fire wall extending the full height of the building shall be used to separate the remaining areas of the existing building which do not conform to the safety provisions of the General Standards.

---

APPENDIX 3

---

DEFINITIONS (Continued)

3. NONPROFIT

The term "nonprofit" as applied to any facility means a facility which is owned and operated by one or more nonprofit corporations or associations no part of the net earnings of which inures, or may lawfully inure, to the benefit of any private shareholder or individual.

4. TITLE

The term "title" when used with reference to a site for a project, means a fee simple, an option to purchase, or a leasehold interest for not less than 50 years from the date the mortgage is executed, or a 99 year renewable lease.

5. SITE

The site is the tract or plot of land on which the facility is or will be located and which is defined in the approved application.

6. STATE AGENCY

The single State agency designated for the administration of the Hill-Burton program, including the formulation and revision of the State plan for health facility construction.

7. FIXED EQUIPMENT

Any major equipment fixed to or any integral part of the building structure (this is realty equipment under HUD-FHA).

8. MOVABLE EQUIPMENT

Readily movable major items not fixed to the building structure (non-realty equipment under HUD-FHA).

9. PROPRIETARY FACILITY

The term "proprietary" as applied to any facility means a facility which is owned and operated by a corporation, partnership, trust, individual or any other qualified legal entity which is licensed and regulated by the State and is not a nonprofit corporation.

## ALLOWABLE AND NONALLOWABLE COSTS

1. Advertising Costs:

Allowable	Advertising costs incurred in obtaining competitive bids.
-----------	---

2. Insurance Coverage:

Allowable	The cost to the mortgagor of insurance coverage during the construction of the project, including the following:
-----------	--

(1) The cost of the mortgagor's liability insurance.

(2) The cost of insurance covering Construction in the event the insurance is carried by the mortgagor rather than the contractor.

(3) The cost of insurance carried by the mortgagor to protect equipment purchased by the mortgagor against loss or damage.

3. Architects Fees:

Allowable	The cost of architectural services rendered in connection with the project as approved, including the cost of plans and specifications prepared by State or political subdivisions, where such agencies are the sponsors of approved projects. The architect's fee may be based on a contract between the architect and the mortgagor setting forth the services to be provided and the manner in which the total fee will be determined. Regardless of the manner in which the fee is determined, Federal participation is limited to an amount which is commensurate with accepted fees within the area.
-----------	--

---

APPENDIX 4

---

Not Allowable	Payments to the architect for work which is not a part of the approved project, abandoned work, or work not put under contract and any payment to the architect which is not provided for in the architectural contract.
4. <u>Consultant Fees:</u>	
Allowable (Non-profit only)	Consultant fees to the extent that they involve work in connection with plans and specifications and the selection and purchase of equipment.
Not Allowable	The cost of conducting feasibility studies to determine need for construction or modernization of a facility.
Not Allowable	Consultant fees on proprietary facilities.
5. <u>Inspection:</u>	
Allowable	The cost of supervision and inspection provided by the architect or an employee of the applicant at the site to ensure that the completed work conforms with approved plans and specifications.
6. <u>Equipment:</u>	
Allowable	The actual cost of all essential initial equipment purchased for the approved project after filing the application with the regional office. Such costs include the cost of transportation, storage, and placement of equipment and the cost of reconditioning equipment which will be used in the project. Essential initial equipment may include equipment made necessary by the expansion, remodeling, alteration, and modernization of an existing building, even though the equipment may not be located in expanded, remodeled, altered, or modernized areas, except that equipment may not be located in areas that do not comply with the General Standards in PHS Publication No. 930-A-7.

- 
- |               |   |
|---------------|---|
| Not Allowable | The cost of equipment which is purchased through a conditional sales contract except where the applicant can demonstrate that the contract has been completed and title transferred to the applicant. |
|---------------|---|
7. In Reserve.
8. Bonus Payments to Contractors:
- |               |  |
|---------------|--|
| Not Allowable | Bonus payments made by the mortgagor to the contractor for completing work in advance of a specified time. |
|---------------|--|
9. Liquidated Damages:
- |           |  |
|-----------|--|
| Allowable | Any amounts collected by mortgagors on bid bonds of defaulting bidders or as liquidated damages for failure of a contractor to complete the work on time shall be disregarded in determining the cost of construction. |
|-----------|--|
10. Damage Judgments Against Sponsor:
- |               |  |
|---------------|--|
| Not Allowable | Expenses incurred as damages arising out of the construction or equipping of the project, whether established by judicial determination, arbitration, negotiation, or otherwise. |
|---------------|--|
11. Sales Tax:
- |           |  |
|-----------|--|
| Allowable | The nonrefundable sales tax and Federal excise tax which a mortgagor pays in connection with constructing and equipping an approved project. |
|-----------|--|
12. Space for Private Practice of Medicine:
- |           |   |
|-----------|---|
| Allowable | The cost of office space intended for the conduct of the private practice of medicine or dentistry, where such space is owned by the hospital and it is advantageous to both the hospital and the community when judged on an individual basis. |
|-----------|---|
-

Allowable	The cost of construction of office space specifically for the use of a medical, dental or optometric group practice plan which qualifies under the provisions of Title XI of the National Housing Act, is an allowable cost when such space is located in a project financed in whole or in part under Section 242 of the National Housing Act, "Mortgage Insurance for Nonprofit Hospitals."
-----------	---

13. Space to be Leased to  
Radiologist or  
Pathologist:

Allowable	The cost of space to house the radiology and pathology services of the hospital and the equipment therein Which is to be leased for operation to a radiologist or pathologist. The hospital must retain authority to control the activities for which the space is utilized to ensure that services to be provided in such space are consistent with the needs and requirements of the hospital.
-----------	--

14. Space for Revenue  
Purposes:

Not Allowable	Cost for office and other space constructed solely for revenue purposes or for the convenience of the occupants as contrasted with the operation of the facility.
---------------	---

15. Space and Equipment for  
Religious Activities:

Allowable	The cost of space and equipment for the provision of spiritual or religious services to patients and staff in eligible medical facilities where such services are appropriate to the type of facility involved and reasonable in amount.
Not Allowable	Costs of any distinctly sectarian or denominational features of construction or the cost of equipment characteristic of, or peculiar to, any sect or denomination.

---

16. Fund Raising Expenses-- Memorial Plaques:

Not Allowable	Costs incurred by the sponsor in raising the non-Federal share of the cost of the project. This includes memorial plaques inscribed with the names of persons, business firms, or other organizations, or book or remembrances used to give recognition to contributors.
---------------	--

17. Public Health Facilities in  
Private Nonprofit Hospitals:

Not Allowable	The cost of constructing and equipping Facilities in a hospital which are intended for the provision of public health services by State or local health departments.
---------------	--

18. Gift Shops, Flower Shops,  
and Snack Bars:

Allowable	The cost of space and equipment providing gift shop, flower shop, and snack bar services. The need for and size of such space is to be reviewed in the light of patient needs and operation of the facility.
-----------	--

19. Unfinished Space:

Not Allowable	The cost of unfinished or partially finished space. No proposal will be approved for a facility containing unfinished space if the projected use of the unfinished space will exceed projected needs.
---------------	---

20. Television:

Allowable	The cost of purchasing and installing television systems, including the antenna system. The cost of a closed circuit television system where the program of the facility justifies such a system.
-----------	---

---

The cost of television sets for day-rooms for short-term care facilities and a reasonable number of sets for patient rooms. In arriving at the "reasonable number", the length of patient stay and occupancy rate as well as other pertinent factors should be considered.

The cost of television sets for day-rooms for long-term care facilities and one set for each patient room.

The cost of television sets for the main lounge of nurses' dormitories.

21. Fallout Protection:

Allowable	Costs in providing reasonable radiation fall-out protection including the cost of space necessary to the establishment of a radiation monitoring station.
-----------	---

22. Housing Staff for Nursing Home:

Allowable	The cost of limited quarters for a nurse on call for 24 hours in an approved project.
-----------	---

23. Pictures and Murals:

Allowable	The cost of pictures to the extent that the number and cost are reasonable.
-----------	---

Not Allowable	The cost of the painting of murals.
---------------	-------------------------------------

24. Floor Finish Materials:

Allowable	The cost of soft flooring materials such as carpeting and resilient tile having a flame spread rating of 75 or less when tested in accordance with American Society for Testing and Materials (ASTM) Standard No. E 84-61, "Method of Test for Surface Burning Characteristics of Building Materials," subject to the same limitations for Federal participation that apply to the entire building; i.e., those costs which are reasonable and necessary.
-----------	---

---

HEW REGIONAL OFFICES

REGION	STATES
Regional Health Director, PHS/HSMHA ATTN: Acting Program Director Health Care Facilities Service DHEW Region I John F. Kennedy Federal Office Bldg. Boston, Massachusetts 02203	Connecticut Maine Massachusetts New Hampshire Rhode Island Vermont
Regional Health Director, PHS/HSMHA ATTN: Program Director Health Care Facilities Service DHEW Region II 26 Federal Plaza, Room 1005 New York, New York 10007	New York New Jersey Puerto Rico Virgin Islands
Regional Health Director, PHS/HSMHA ATTN: Program Director Health Care Facilities Service DHEW Region III 401 North Broad Street, Room 420 (mailing address - P.O. Box 12900) Philadelphia, Pennsylvania 19108	Delaware District of Columbia Maryland Pennsylvania Virginia West Virginia
Regional Health Director, PHS/HSMHA ATTN: Program Director Health Care Facilities Service DHEW Region IV 50 Seventh Street, N.W., Room 404 Atlanta, Georgia 30323 South Carolina Tennessee	Alabama Florida Georgia Kentucky Mississippi North Carolina
Regional Health Director, PHS/HSMHA ATTN: Program Director Health Care Facilities Service DHEW Region V 226 W. Jackson Boulevard, Room 204 Chicago, Illinois 60606	Illinois Indiana Minnesota Michigan Ohio Wisconsin

---

---

4615.1

APPENDIX 5

---

Regional Health Director, PHS/HSMHA ATTN: Program Director Health Care Facilities Service DHEW Region VI 1114 Commerce Street Dallas, Texas 75202	Arkansas Louisiana New Mexico Oklahoma Texas
--	--

---

Regional Health Director, PHS/HSMHA ATTN: Program Director Health Care Facilities Service DHEW Region VII Federal Office Building 601 East 12th Street Kansas City, Missouri 64106	Iowa Kansas Missouri Nebraska
--	--

---

Regional Health Director, PHS/HSMHA ATTN: Acting Program Director Health Care Facilities Service DHEW Region VIII 9017 Federal Office Building 19th & Stout Streets Denver, Colorado 80202	Colorado Montana North Dakota South Dakota Utah Wyoming
--	--

---

Regional Health Director, PHS/HSMHA ATTN: Acting Program Director Health Care Facilities DHEW Region IX 50 Fulton Street San Francisco, California 94102 Trust Territories Wake Island	Arizona California Hawaii Nevada American Samoa Guam
---	---

---

Regional Health Director, PHS/HSMHA ATTN: Program Director Health Care Facilities Service DHEW Region X Arcade Building 1321 Second Avenue Seattle, Washington 98101	Alaska Idaho Oregon Washington
--	---

---

STATE AGENCIES ADMINISTERING THE HOSPITAL AND MEDICAL FACILITIES  
SURVEY AND CONSTRUCTION (HILL-BURTON) PROGRAM

Alabama

State Health Officer  
State Department of Public Health  
Montgomery, Alabama 36104

Alaska

Commissioner  
Department of Health and Welfare  
Juneau, Alaska 99801

Arizona

Commissioner  
State Department of Health  
Phoenix, Arizona 85007

Arkansas

State Health Officer  
State Board of Health  
Little Rock, Arkansas 72201

California

Director of Public Health  
State Department of Public Health  
Berkeley, California 94704

Colorado

Director of Public Health  
State Department of Public Health  
Denver, Colorado 80220

Connecticut

Commissioner of Health  
State Department of Health  
Hartford, Connecticut 06115

Delaware

Executive Secretary  
State Board of Health  
Dover, Delaware 19901

District of Columbia

Director of Public Health  
District of Columbia  
Department of Public Health  
Washington, D. C. 20001

Florida

Director  
Division of Community Hospitals  
and Medical Facilities  
Board of Commissioners of State  
Institutions  
Tallahassee, Florida 32304

Georgia

Director  
Georgia Department of Public  
Health  
Atlanta, Georgia 30334

Guam

Director  
Department of Public Health and  
Social Services Territory of  
Guam  
Agana, Guam 96910

Hawaii

Director of Health  
Hawaii Department of Health  
Honolulu, Hawaii 96801

---

4615.1

APPENDIX 6

---

Idaho

Administrator of Health  
Idaho Department of Health  
Boise, Idaho 83710

Illinois

Director of Public Health  
Illinois Department of Public  
Health  
Springfield, Illinois 62706

Indiana

Secretary, State Board of Health  
and State Health Commissioner  
Department of Public Health  
Indianapolis, Indiana 46207

Iowa

Commissioner of Public Health  
State Department of Health  
Des Moines, Iowa 50319

Kansas

State Health Officer  
Kansas State Department of Health  
Topeka, Kansas 66612

Kentucky

Commissioner of Health  
State Department of Health  
Frankfort, Kentucky 40601

Louisiana

Director  
Louisiana Department of Hospitals  
Baton Rouge, Louisiana 70804

Maine

Commissioner  
Maine Department of Health  
and Welfare  
Augusta, Maine 04330

Maryland

Commissioner of Health  
State Department of Health  
Baltimore, Maryland 21201

Massachusetts

Commissioner of Public Health  
Massachusetts State Board of  
Health  
Boston, Massachusetts 02133

Michigan

Director of Public Health  
Michigan Department of Public  
Health  
Lansing, Michigan 48914

Minnesota

Secretary and Executive Officer  
Minnesota Department of Health  
Minneapolis, Minnesota 55440

Mississippi

Executive Director  
Mississippi Commission on Hospital  
Care  
Jackson, Mississippi 39205

---

Missouri

Director of Health  
Division of Health  
Missouri Department of  
Public Health and Welfare  
Jefferson City, Missouri 65102

Montana

Executive Officer and Secretary  
State Department of Health  
Helena, Montana 59601

Nebraska

Director of Health  
Nebraska Department of Health  
Lincoln, Nebraska 68509

Nevada

State Health Officer  
Division of Health  
State Department of Health,  
Welfare, and Rehabilitation  
Carson City, Nevada 89701

New Hampshire

Director  
Division of Public Health  
N. H. Department of Health  
and Welfare  
Concord, New Hampshire 03301

New Jersey

Commissioner, State Department  
of Institutions and Agencies  
Trenton, New Jersey 08625

New Mexico

Director  
New Mexico Department of Health  
and Social Services  
Santa Fe, New Mexico 87501

New York

Commissioner of Health  
State Department of Health  
Albany, New York 12208

North Carolina

Executive Secretary  
North Carolina Medical Care  
Commission  
Raleigh, North Carolina 27603

North Dakota

State Health Officer  
State Department of Health  
Bismark, North Dakota 58501

Ohio

Director of Health  
Ohio Department of Health  
Columbus, Ohio 43215

Oklahoma

Acting Commissioner of Health  
State Department of Health  
Oklahoma City, Oklahoma 73105

Oregon

State Health Officer  
State Board Of Health  
Portland, Oregon 97201

---

4615.1

APPENDIX 6

---

Pennsylvania

Secretary of Public Welfare  
State Department of Public Welfare  
Harrisburg, Pennsylvania 17120

Puerto Rico

Secretary of Health  
Puerto Rico Department of Health  
San Juan, Puerto Rico 00924

Rhode Island

Director of Health  
Rhode Island Department of Health  
Providence, Rhode Island 02903

South Carolina

State Health Officer  
State Board of Health  
Columbia, South Carolina 29201

South Dakota

State Health Officer  
State Department of Health  
Pierre, South Dakota 57501

Tennessee

Commissioner of Public Health  
Tennessee Department of Public  
Health  
Nashville, Tennessee 37219

Texas

Commissioner of Health  
State Department of Health  
Austin, Texas 78756

Utah

Director of Public Health  
State Department of Health  
Salt Lake City, Utah 84113

Vermont

State Health Commissioner  
Vermont Department of Health  
Burlington, Vermont 05402

Virginia

State Health Commissioner  
State Department of Health  
Richmond, Virginia 23219

Virgin Islands

Commissioner of Health  
Virgin Islands Department of Health  
St. Thomas, Virgin Islands 00801

Washington

Director of Health  
State Department of Health  
Olympia, Washington 98502

West Virginia

State Director of Health  
State Department of Health  
Charleston, West Virginia 25311

Wisconsin

State Health Officer  
State Board of Health  
Madison, Wisconsin 53702

Wyoming

Assistant Director of Public Health  
State Department of Public Health  
Cheyenne, Wyoming 82001

GUIDE FORM - NEW FINAL APPROVAL LETTER  
(See Appendix 3, Instructions for Preparation of FHA Form No. 2013, for amounts to be inserted. Use only one column.)

	New Facility (A)	Existing Facility Property Owned (B)	To Be Acquired (C)
1. Total construction cost per contract(s).....			
2. <u>Fees</u>			
Design architect .....			
Supervisory architect .....			
Appraisal .....			
Other (identify).....			
3. <u>Other</u>			
Site demolition costs .....			
Survey and soil testing .....			
Other (identify) .....			
4. Cost of major movable equipment and fixed equipment not in construction contracts .....			
5. Total for all improvements and equipment .....			
6. <u>Carrying Charges and Financing</u>			
Interest .....			
Taxes.....			
Insurance .....			
FHA mortgage insurance premium .....			
FHA examination fee .....			
FHA inspection fee .....			
Financing expense.....			
Placement fee.....			
AMPO (nonprofit only).....			
Title and recording expense.....			
7. <u>Legal and Organization</u>			
Legal.....			
Organization.....			
Consultant (nonprofit only).....			
8. Total estimated replacement cost (Exclusive of land and existing improvements).....			
9. (A) Land (As-is appraised value).....			
(B) <u>Property owned</u>			
Land and existing improvements			
\$ _____ x 90% = \$ _____			
Existing indebtedness \$ _____			
Lesser amount to Col. B.			
(C) <u>To be acquired</u>			
Land and existing improvements			
\$ _____			
Purchase price \$ _____			
Lesser amount to Col. C.			
10. Total			

	New Facility (A)	Existing Facility Property Owned (B)	To Be Acquired (C)
Maximum insurable mortgage (Not to exceed \$50,000,000)			
Column (A) Item 10 x 90%.....			
Column (B) Item 10 x 100%.....			
Column (C) Item 10 x 90%.....			
Amount that can be paid off from project net in- come, as approved by HEW.*			

\*This figure is determined by HEW and must take into consideration, among other factors, the amounts of Hill-Burton and other grants and approved loans, if they exist.

Estimated construction period \_\_\_\_\_ months.  
 Due date of first principal payment. \_\_\_\_\_ months  
 after estimated date of completion of construction.  
 Mortgagor (is, not) exempt from real estate taxes.  
 Amount of real estate taxes (if any):  
 During construction \$ \_\_\_\_\_  
 During Operation-Annual \$ \_\_\_\_\_

Amount of annual deposit to Reserve Fund for Replacements  
 (Proprietary only) \$ \_\_\_\_\_

Amount of operating deficit (if any) \$ \_\_\_\_\_ to be  
 held \_\_\_\_\_ months.

Other remarks and requirements:

#### CERTIFICATION OF APPROVAL

I. Legal Name of Applicant \_\_\_\_\_ Address \_\_\_\_\_

Hereby certifies that for any construction described in its application and the plans and specifications attached thereto it will comply with all requirements, assurances, and representations relating to such construction and the operation and maintenance of the facility of facilities constructed

Name and Title of Responsible Officer \_\_\_\_\_ Signature of Responsible Off. \_\_\_\_\_ Date \_\_\_\_\_  
 (Type or Print)

Certification of approval by HEW

On behalf of the Secretary, Department of Health, Education, and Welfare,

I certify approval of the application for mortgage insurance under the

\_\_\_\_\_ for  
 (Applicable Federal Act(s))

\_\_\_\_\_  
 (Construction Project Description or Designation)

by \_\_\_\_\_  
 (Legal Name of Applicant)

Date \_\_\_\_\_

NAME AND TITLE OF OFFICER \_\_\_\_\_  
 \_\_\_\_\_